

U.S. ARMY SERGEANTS MAJOR ACADEMY (ANCOC)

L429

OCT 03

FINANCIAL MANAGEMENT

## **TRAINING SUPPORT PACKAGE**



## TRAINING SUPPORT PACKAGE (TSP)

<b>TSP Number / Title</b>	L429 / FINANCIAL MANAGEMENT
<b>Effective Date</b>	01 Oct 2003
<b>Supersedes TSP(s) / Lesson(s)</b>	None
<b>TSP Users</b>	600-ANCOC, Advanced Noncommissioned Officer Course
<b>Proponent</b>	The proponent for this document is the Sergeants Major Academy.
<b>Improvement Comments</b>	<p>Users are invited to send comments and suggested improvements on DA Form 2028, <i>Recommended Changes to Publications and Blank Forms</i>. Completed forms, or equivalent response, will be mailed or attached to electronic e-mail and transmitted to:</p> <p>COMDT USASMA ATTN ATSS D BLDG 11291 BIGGS FIELD FT BLISS TX 79918-8002</p> <p>Telephone (Comm): (915) 568-8875 Telephone (DSN): 978-8875</p> <p>e-mail: atss-dcd@bliss.army.mil</p>
<b>Security Clearance / Access</b>	Unclassified
<b>Foreign Disclosure Restrictions</b>	FD5. This product/publication has been reviewed by the product developers in coordination with the USASMA foreign disclosure authority. This product is releasable to students from all requesting foreign countries without restrictions.

## PREFACE

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**Purpose**

This Training Support Package provides the instructor with a standardized lesson plan for presenting instruction for:

Task NumberTask Title

121-008-1496

Supervise the Implementation of Financial  
Readiness Actions

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**FINANCIAL MANAGEMENT**  
**L429 / Version 1**  
**01 OCT 2003**

**SECTION I. ADMINISTRATIVE DATA**

<b>All Courses Including This Lesson</b>	<u>Course Number</u> 600-ANCOC	<u>Version</u> 1	<u>Course Title</u> Advanced Noncommissioned Officer Course
<b>Task(s) Taught (*) or Supported</b>	<u>Task Number</u> 121-008-1496	<u>Task Title</u> Supervise the Implementation of Financial Readiness Actions	
<b>Reinforced Task(s)</b>	<u>Task Number</u> None	<u>Task Title</u>	
<b>Academic Hours</b>	The academic hours required to teach this lesson are as follows:		
		<u>Resident Hours/Methods</u>	
		2 hrs	/Conference / Discussion
	Test	0 hrs	
	Test Review	0 hrs	
	Total Hours:	2 hrs	
<b>Test Lesson Number</b>		<u>Hours</u>	<u>Lesson No.</u>
	Testing (to include test review)	4 hrs	E403 version 1
<b>Prerequisite Lesson(s)</b>	<u>Lesson Number</u>	<u>Lesson Title</u>	
	None		
<b>Clearance Access</b>	Security Level: Unclassified Requirements: There are no clearance or access requirements for the lesson.		
<b>Foreign Disclosure Restrictions</b>	FD5. This product/publication has been reviewed by the product developers in coordination with the USASMA foreign disclosure authority. This product is releasable to students from all requesting foreign countries without restrictions.		

**References**

<u>Number</u>	<u>Title</u>	<u>Date</u>	<u>Additional Information</u>
DOD 7000. 14-R	Department of Defense Financial Management Regulation	Sept 2000	VOL 9, Chap 3, DOD Government Travel Charge Card
	U.S. Army Personal Financial Management Training Instructor Guide	15 May 2002	

**Student Study Assignments**

Before class--

- Read Student Handouts 1 thru 5.

During class--

- Participate in classroom discussions.

After class--

- Turn in recoverable reference materials.

**Instructor Requirements**

1:16, SFC, ANCOC graduate, ITC and SGITC qualified

**Additional Support Personnel Requirements**

<u>Name</u>	<u>Stu Ratio</u>	<u>Qty</u>	<u>Man Hours</u>
None			

**Equipment Required for Instruction**

<u>ID Name</u>	<u>Stu Ratio</u>	<u>Instr Ratio</u>	<u>Spt</u>	<u>Qty</u>	<u>Exp</u>
441-06 LCD PROJECTION SYSTEM	1:16	1:1	No	1	No
702101T134520 DELL CPU, MONITOR, MOUSE, KEYBOARD	1:16	1:1	No	1	No
7110-00-T81-1805 DRY ERASE BOARD	1:16	1:1	No	1	No
7510-01-424-4867 EASEL, (STAND ALONE) WITH PAPER	1:16	1:1	No	1	No

\* Before Id indicates a TADSS

**Materials  
Required****Instructor Materials:**

- TSP.
- VGTs: 7.

**Student Materials:**

- SH-1, Advance Sheet.
- SH-2, Extracted Material from U.S Army Personal Financial Management Training Guide, 2002.
- SH-3, Extracted Material from Personal Financial.
- SH-4, Extracted Material from DOD Financial Management Regulation on Split Disbursement Payment.
- SH-5, Extracted Material DOD Financial Management Regulation, Vol 9, Chap 3.
- Any materials required by the NCOA's SOP.

**Classroom,  
Training Area,  
and Range  
Requirements**

GEN INSTRUCTION BLDG (CLASSROOM SIZE 40X40 PER 16 STU)

**Ammunition  
Requirements**

<u><b>Id</b></u>	<u><b>Name</b></u>	<u><b>Exp</b></u>	<u><b>Stu Ratio</b></u>	<u><b>Instr Ratio</b></u>	<u><b>Spt Qty</b></u>
None					

**Instructional  
Guidance**

**NOTE:** Before presenting this lesson, instructors must thoroughly prepare by studying this lesson and identified reference material.

Before class--

- Read study materials prior to the class.
- Use the questions to check on learning or generate discussion among the group members. You may add any questions you deem necessary to stimulate discussion with the students.
- You must know the information in this TSP well enough to teach from it, not read from it.
- Issue reference materials to the students during inprocessing.

During class--

- Conduct the class in accordance with this TSP.

After class--

- Collect all recoverable materials.

**Proponent  
Lesson Plan  
Approvals**

<u>Name</u>	<u>Rank</u>	<u>Position</u>	<u>Date</u>
Kelly, Randolph E.	GS09	Training Specialist	
Eichman, Guy A.	MSG	Course Chief, BNCOC/ANCOC	
Lawson, Brian H.	SGM	Chief, NCOES	
Mays, Albert J.	SGM	Chief, CDDD	



## SECTION II. INTRODUCTION

Method of Instruction: <u>Conference / Discussion</u>
Technique of Delivery: <u>Small Group Instruction (SGI)</u>
Instructor to Student Ratio is: <u>1:16</u>
Time of Instruction: <u>5 mins</u>
Media: <u>None</u>

### Motivator

Many of you haven't started planning for your retirement future yet. We think that our retirement checks will cover a majority of our expenses, so when we retire, we won't have to work as hard. Right now, most of you are fortunate enough to start planning for your future because you're still a long way from retirement. As a leader of soldiers, you must know how to advise your soldiers on their future by managing their money wisely. You need to understand the importance of wise decision-making when it comes to money management and assist your soldiers in securing their financial stability for themselves and their families.

### Terminal Learning Objective

**NOTE:** Inform the students of the following Terminal Learning Objective requirements. At the completion of this lesson, you [the student] will:

<b>Action:</b>	Supervise subordinates in management of personal finances.
<b>Conditions:</b>	As a platoon sergeant in a classroom or unit environment and given a platoon and Student Handouts 1 thru 5.
<b>Standards:</b>	Supervised subordinates in management of personal finances by-- <ul style="list-style-type: none"><li>• Identifying the many sources of retirement income,</li><li>• Identifying the various processes in buying a home,</li><li>• Identifying the proper use of government credit card,</li></ul> IAW Student Handouts 1 thru 5.

### Safety Requirements

None

### Risk Assessment Level

Low

### Environmental Considerations

**NOTE:** It is the responsibility of all soldiers and DA civilians to protect the environment from damage.

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**Evaluation**

You will take a written examination covering the TLO and ELOs in this lesson. To receive a GO, you must correctly answer 35 of the 50 questions for a score of 70 percent or better.

**NOTE:** Inform the students of where their examination will take place as posted on the training schedule and when they will receive feedback on the test. Include any retest information.

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**Instructional  
Lead-In**

In BNCOC you received a class on financial management. The class covered the three major elements of managing your personal finances: spending less than you make, saving for the future, and getting financial help when you need it. During this period of instruction you will learn some basic techniques in supervising your subordinates in managing their personal finances.

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### SECTION III. PRESENTATION

**NOTE:** Inform the students of the Enabling Learning Objective requirements.

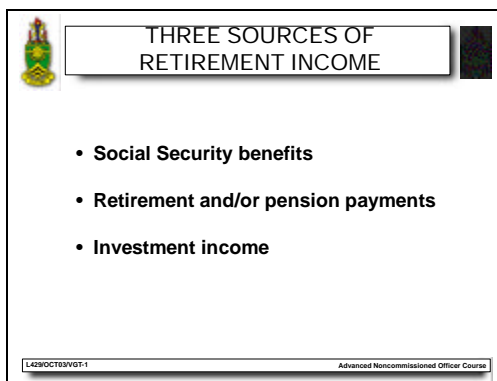
#### A. ENABLING LEARNING OBJECTIVE

<b>ACTION:</b>	Identify the many sources of retirement income.
<b>CONDITIONS:</b>	As a platoon sergeant in a classroom or unit environment and given a platoon and Student Handout 2.
<b>STANDARDS:</b>	Identified the many sources of retirement income by defining the different types of investments and the differences between saving and investing IAW Student Handout 2.

1. Learning Step / Activity 1. Identify Basic Retirement Plans  
Method of Instruction: Conference / Discussion  
Technique of Delivery: Small Group Instruction (SGI)  
Instructor to Student Ratio: 1:16  
Time of Instruction: 35 mins  
Media: VGT-1 thru VGT-3

Retirement has changed significantly from the past. Many people today retire from the military and then when they retire from a second profession, they retire younger, live longer, and are usually quite healthy. Many retirees are independent and also enjoy more of the fruits from their labor. Retirement income has to equal or, depending on their activities, even exceed pre-retirement income.

#### SHOW VGT-1, THREE SOURCES OF RETIREMENT INCOME



Ref: SH-2, Unit 8 Investments/Savings/Thrift Savings Plan/REDUX, p 3

Retirement income is often described as the three-legged stool. The three legs are Social Security benefits, retirement and/or pension payments, and investment income.

## **REMOVE VGT-1**

We will discuss Social Security benefits first, better known as the first leg of the stool.

The FICA withholding you see on your Leave and Earnings Statement (LES) is your Social Security contribution. Eligibility to draw your full Social Security benefits begins at age 67. Payments for someone your age, when they reach full retirement, will be about a \$1,000 a month in terms of today's dollars. After you have been working for a year or two, you should ensure the Social Security Administration is tracking your employment by requesting an Earnings and Benefits Estimate. The Social Security Administration will automatically will send you annual statements at age 25.

The second leg of the retirement income stool is retirement benefits and pensions. Many of you will retire from the military and begin a second career and retire again. Some of your soldiers will leave the service prior to retirement and start employment in the civilian world. In either case, I strongly suggest you examine an employer's retirement plans and pension benefits when deciding to take, or remain in, any specific job. However, at this point in your military career we will concentrate on your military retirement benefits.

There are two types of retirement plans: Defined Benefit and Defined Contribution. Today's Army has both. Defined Benefit Plans are the more traditional type. You will usually work a relatively long time to become eligible for a pension check. The amount of monthly pension, normally based on salary and the number of years worked, is a guarantee for life. These plans may or may not include cost of living increases. Defined Contribution Plans have become increasingly popular over the past 20 years or so. Unlike military retirement, these plans allow employees to contribute up to a certain amount of their salary each month, before taxes, to a fund that they have a significant amount of control over. Sometimes, in the civilian world, employers will match a portion of each month's contributions. The most common

are 401(k) plans, named after the regulating paragraph in the Federal Income Tax Code. However, there is no guarantee with this type of plan. Workers eventually receive a lump sum payout, which they can then invest for future income. The sum amount depends on how much the worker has invested and the specific investment plan earnings.

Military retirement has traditionally been a good benefit, though not quite as good as portrayed to the civilian community. Most civilians believe everyone in the military can retire on half pay after 20 years, without recognizing that retirement pay does not reflect bonuses, housing allowances, and many other parts of military compensation. On average, military retirees can normally expect to receive between 35 percent and 40 percent of their final total entitlement (equivalent to a civilian salary) if they retire at 20 years and probably about 2/3 if they serve 30 years.

### **Final Pay Plan**

Soldiers who entered the service prior to September 8, 1980 and retired after 20 years of service get 50 percent of their basic pay from the day they retire, plus 2.5 percent for every additional year beyond 20, up to a maximum of 75 percent of basic pay.

Soldiers who entered the service, on or after September 8, 1980 will receive one of the following plans:

### **High Three Plan**

The High Three Plan applies to anyone who initially came on active duty on or after September 8, 1980. Furthermore, only those who entered the service on or before July 31, 1986 receive coverage by this plan; they will not have the option of choosing the Career Status Bonus that we will discuss later. Most service members currently at or approaching retirement eligibility received coverage by the High Three Retirement Plan. The only change is that retirement pay calculates the individual's high three average pay instead of their final pay. This represents a light to moderate reduction in total retirement benefits, depending on the individual's circumstances.

## **CSB/REDUX Plan**

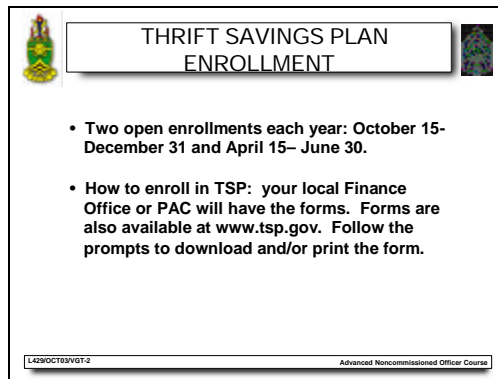
CSB/REDUX Plan applies to those who enter the military on or after August 1, 1986. Service members will choose, on their 15<sup>th</sup> anniversary of military service, between two plans:

- **The High Three Plan.** The High Three Plan consists of a \$30,000 cash payment at 15 years of service and reduced benefits after 20 years of 40 percent of basic pay, with 3.5 percent added for each additional year, up to a maximum of 75 percent of basic pay. With this option, the soldier promises to stay until retirement as a condition of receiving the cash payment.
- **The Thrift Savings Plan.** Up until now, the only retirement plans available to service members fell into the category of Defined Benefit Plans. However, beginning October 9, 2001, in addition to your Defined Benefits Plan, you and all other service members will have access to a Defined Contributions Plan, the Thrift Savings Plan (TSP). We will discuss the basics of the TSP. You can go to the TSP website to learn more about the program and the various investment funds. We'll now look at how this plan works and what it can do for you.

## **Benefits of TSP**

It's easy to enroll and maintain your investment plan. There are no costs to the individual for management of the program by the TSP Management Board. Money contributed to the TSP is pre-tax dollars, NOT counted as taxable income. However, you will eventually have to pay taxes upon withdrawal.

## SHOW VGT-2, THRIFT SAVINGS PLAN ENROLLMENT



Ref: SH-2, Unit 8 Investments/Savings/Thrift Savings Plan/REDUX, p 8, para 2

The Thrift Saving Plan has two open enrollments each year: October 15 to December 31 and April 15 to June 30. See your local finance office or PAC for enrollment forms, or download the forms from the TSP web site, [www.tsp.gov](http://www.tsp.gov).

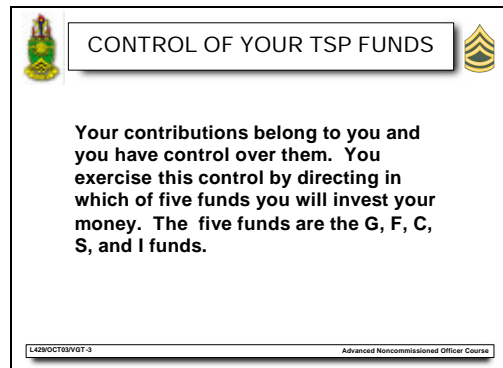
### REMOVE VGT-2

#### Contribution Sources

Select all the contribution sources boxes on the TSP Enrollment Form even if you are not receiving special, incentive, or bonus pays. If you do not select the special, incentive, or bonus blocks and then start receiving them you cannot contribute those moneys into TSP until you resubmit the form.

Especially important is the bonus selection. If you do not select the contribution from the bonus block and you eventually receive one, you cannot invest any of the money into the TSP. If you stop contributing from your base pay, all other sources of contributions will stop. You can contribute up to 7 percent of your base pay and up to 100 percent of any special pays, incentive pays, or bonuses up to the IRS maximum, currently at \$11,000 per year.

## SHOW VGT-3, CONTROL OF YOUR TSP FUNDS



Ref: SH-2, Unit 8 Investments/Savings/Thrift Savings Plan/REDUX, p 10, para d

Your contributions belong to you and you have control over them. This control gives you the authority to direct where to put your money. There are five funds available to invest your money in. These funds are G, F, C, S, and I funds.

We will start with the “G” Fund. The “G” Fund invests in government securities and guarantees your investment against loss. It invests in non-marketable U.S. Treasury Securities with one to four day maturities. There is also no risk of loss (negative returns). Even though the "G" fund has never lost money, the rate of return on this investment is usually between 4 and 7 percent. The compound annual rate of return from 1992 to 2001 was 6.47 percent.

The second fund is the “F” Fund. The “F” Fund invests in corporate and government bonds. It invests in a bond index fund, U.S. government (U, S. Treasury and agencies), and mortgage-backed securities. The compound annual rate of return from 1992 to 2001 was 7.19 percent.

The third is the “C” Fund. The “C” Fund tracks the performance of the stock market. The “C” fund invests in a Standard & Poor’s (S&P) 500 stock index fund. The S&P 500 index contains common stocks of 500 companies that represent the U.S. stock markets. The compound annual rate of return from 1992 to 2001 was 12.88 percent.



The fourth fund is the "S" Fund. The "S" Fund invests in small to medium sized U.S. companies invested in the Wilshire 4500 Stock Index Fund. Wilshire 4500 Index contains all common stocks (except those in the S&P 500 Index) actively traded in the U.S. stock markets on a daily basis. Compound annual rate of return from 1992 to 2001 was 10.71 percent.

The last fund is the "I" Fund. The "I" Fund invests entirely in non-U.S. companies. It invests in a Europe, Australia, and Far East (EAFE) stock index fund. EAFE contains stocks that cover approximately 60 percent of the stock markets of the 20 countries included in the index. Compound annual rate of return from 1992 through 2001 was 4.38 percent.

The C, S, and I Fund performance are directly proportional to the success of the companies they invest in. For now, it is safe to say that the fund you choose will determine the return you desire, balanced with the risk you can afford.

### **REMOVE VGT-3**

#### **TSP Contribution Allocation**

After your initial enrollment and election request processes, the TSP will deposit your first contribution into the "G" Fund. When they receive your first contribution, you will receive a TSP PIN. You can then begin making contribution allocations among the various funds using the TSP Thrift line, Website, or via mail. Prior to allocating your contributions to funds other than the "G" Fund, you will have to acknowledge that you understand the risk associated with investing in the stock market. Ensure you allocate the funds in increments of 1 percent (for example, if you elect to contribute 3 percent, you may want to put 1 percent in the "G" Fund and 2 percent in the "C" Fund).

#### **Additional Benefits of TSP Loans**

You can also borrow on your TSP account. The two types of loans available are the general-purpose loan or a loan for a primary residence. You must pay back all loan payments, plus interest, into your TSP account. Remember, the TSP is an

investment for your retirement. Avoid taking a loan from your account. Upon separation or retirement, you can roll the funds in the TSP into a qualified 401k plan. While on active duty you can rollover a qualified Individual Retirement Account (IRA) into the TSP.

You can move your invested money between the various funds, once a month, 12 times a year.

### **TSP Options Upon Retirement or Separation**

Leave your money in the TSP. You cannot make further contributions, but your money continues to accrue.

Take a single payout. If you take a single payout, the payment goes directly to you after 20 percent deduction for income tax withholding.

**NOTE:** Point out to the students that although SH-2, Unit 8, p 15 states, “. . . 20% deduction for fees,” the TSP website states the 20 percent is income tax withholding.

Another option you have is to rollover the money in the TSP account into an IRA or 401k. Although SH-2 does not address it, the TSP website states, “You can avoid withholding on all or any portion of an eligible rollover distribution by asking the TSP to transfer that amount to a traditional IRA or an eligible employer plan.”

Lastly, you can receive monthly payments starting at age 59 ½. There are substantial penalties for withdrawing the money prior to 59 ½.

### **Your Responsibilities with the TSP**

Once enrolled in the TSP you have additional responsibilities to make contribution elections, make investment and allocation decisions, keep accurate up-to-date personal information, and designate a beneficiary.

### **Investment Information Only**

Keep in mind, we will provide you with very basic investment information. We are not financial planners, nor do we have the qualifications to recommend investing in any particular stocks, bonds, or mutual funds. You will need to make these decisions for yourself as you mature and become more knowledgeable about investment strategies.

Now, let's discuss the third leg of our retirement planning. The third leg of our retirement planning stool is investment income. There are several differences between investing money and merely saving it. Recognize that the ultimate purpose of saving money is to eventually spend it. Savings accounts are virtually 100 percent safe, as the Federal Government insures most savings accounts. Conversely, the purpose of investing money is to allow it to grow. Investing is generally thought of in terms of a significant time span, five years or more. Even optimum savings instruments have limited ability to overcome the effects of inflation and taxes, both of which decrease the value of our money. Wise investments will mitigate these effects, but investing involves some degree of risk. However, the greatest risk is not making prudent investments and, therefore, not growing your money to meet your retirement needs. Because saving and investing have different purposes, you use different instruments for each.

### **Instruments of Savings**

Savings instruments that are highly safe and liquid but provide relatively low yields include regular or share savings accounts, certificates of deposit (CD), money market accounts, and U.S. savings bonds.

### **Investment Assets**

Investment instruments fall into one of two categories: equity assets or debt. In equity assets, you invest as an owner. Examples of equity assets are growing assets such as stocks and hard assets such as real estate. In debt assets, you invest as a lender. An example of debt assets is bonds (varying levels of government and some companies use bonds).

### **Instruments of Investment**

As you become more financially capable and knowledgeable about investing, you may want to consider other investment instruments in addition to the TSP, such as an Individual Retirement Account (IRA), direct purchase of bonds or stocks, and mutual funds.

- **Individual Retirement Accounts (IRA).** IRAs are similar to TSP funds. You can purchase an IRA through financial institutions like banks, credit unions, or investment firms.
- **Direct Purchase of Bonds or Stocks.** Unlike the TSP, there will be fees, paid to the brokerage house, associated with purchasing bonds or stocks.
- **Mutual Funds.** Mutual Funds are stocks and bonds you can purchase with a pool of investors who have similar goals.

Historically, over the last 70 years, the stock market returned an average of 10 percent to 12 percent, while bond returns averaged 4 percent to 7 percent. However, you should recognize that there are years, and periods of several years, where bonds significantly out-performed stocks.

### **Techniques of Saving and Investing**

No matter how you choose to invest your money, there are three established techniques that can assist you in accumulating the funds necessary for saving. They are the following:

1. The first rule is "Pay yourself first." Develop a spending plan that reduces debt and provides a positive cash flow. Set aside a certain amount for savings and investment at the top of your plan. Savings allotments and contributions to the TSP are two excellent ways to "pay yourself first." You never miss the money because you never see it.
2. The second technique is to maximize tax-deferred investment opportunities. The TSP and civilian 401(k) plans are excellent vehicles for this purpose. IRAs are another way to pay yourself. Make sure you increase your knowledge about investing before looking at the many instruments available to you.
3. The third technique is dollar cost averaging. Invest a set amount every month regardless of market performance. No one can predict the market. Over time, dollar cost averaging will compensate for the market ups and downs.

## **Creative Savings Strategies**

Some of you may be saying this is all well and good, but where do you get the money to save and invest? Let's look at a few things you can do. One way to quickly pad a savings account is to shift debt payments to savings when you pay the debt off. Just start banking this amount once you pay off your loan. If you unexpectedly receive a sum of money, put it directly into your savings account and watch it grow. Select one month during the year and really be a scrooge. Only doing it for a month may help to develop some excellent habits that will carry over into the future. Be very aware of just how much you spend on fast food and snacks. That could be \$50 a month going into your savings and investment accounts. When living off-base, see how much you can cut back on utilities for one month. Be energy conscious. You could easily save 10 percent – 20 percent on your utility bill. Put the difference in savings!

## **Sources of Assistance**

Choosing ways to invest your savings is an art form. Good investments will make money; bad investments will cost money. Do your homework by gathering as much information as you can. Seek advice from personnel at your bank or other trained financial experts. Read newspapers, magazines, and other publications. Identify credible information sources on the Internet. Join an investment club. These are techniques that will assist you in forming sound financial habits.

## **CHECK ON LEARNING:**

QUESTION: What are the dates that you may enroll in the TSP each year?

ANSWER: October 15 thru December 31 and April 15 thru June 30.

Ref: SH-2, Unit 8 Investments/Savings/Thrift Savings Plan/REDUX, p 8, para 7a (2)

QUESTION: What is the difference between saving and investing?

ANSWER: Saving is eventually spending it and investing is allowing your money to grow.

Ref: SH-2, Unit 8 Investments/Savings/Thrift Savings Plan/REDUX, p 16 and 17, para 9a

QUESTION: What are two examples of a savings instrument?

ANSWER: CD, U.S. savings bonds, money market accounts, and regular or share savings accounts.

Ref: SH-2, Unit 8 Investments/Savings/Thrift Savings Plan/REDUX, p 17, para a

QUESTION: What are two examples of an investing instrument?

ANSWER: IRA, direct purchase of bonds or stock, mutual funds.

Ref: SH-2, Unit 8 Investments/Savings/Thrift Savings Plan/REDUX, p 19, para c

**B. ENABLING LEARNING OBJECTIVE**

<b>ACTION:</b>	Identify the various processes in buying a home.
<b>CONDITIONS:</b>	As a platoon sergeant in a classroom or unit environment and given a platoon of soldiers and Student Handout 3.
<b>STANDARDS:</b>	Identified the various processes in buying a home by identifying the steps for a mortgage loan, closing costs, and owning a home IAW Student Handout 3.

1. Learning Step / Activity 1. Rent or Buy

Method of Instruction: Conference / Discussion

Technique of Delivery: Small Group Instruction (SGI)

Instructor to Student Ratio is: 1:16

Time of Instruction: 25 mins

Media: VGT-4

Some of you may not be facing this choice yet as you are living on base.

However, at some point in your life you will be making the choice between renting and buying. To evaluate whether renting or buying is best for your family, consider some of the pros and cons of each choice:

**Renting may be better if:**

- You move a lot. Unless you live in one place at least five to seven years, you will probably lose money when selling your home. If you cannot sell, you may become a landlord by having to rent your home.
- You are unfamiliar with the area. You should identify a neighborhood and rent there first to determine its ultimate long-term desirability.

- You are low on cash to cover the down payment and initial costs involved in purchasing a home. Renting a while in order to save for a down payment and closing costs makes sense.
- You do not care to commit the time, effort, and expense of maintaining a home. The cost of maintaining a home greatly exceeds those of renting. If you cannot imagine not calling a landlord to fix the backed-up drain in the bathtub, you should rent.
- You are separating or retiring from the military. The VA has become much stricter about lending to separatees or retirees until two to three years after their dates of separation/retirement.

**Buying may be better if:**

- You are moving to an area enjoying high appreciation in the value of residential property. If an area's homes are appreciating at rates of 5 to 10 percent a year, your home's increased value should offset the costs of selling it if you transferred.
- You can afford to buy a home that will allow you to itemize on your tax return and include those charitable contributions. It must be expensive enough that the interest paid and real estate taxes nearly equal or exceed the standard deduction. We will elaborate on this point in a few minutes.
- Landlords may frown upon your pets.
- You are ready for stability and a sense of community. Buying a home automatically commits you to a region and a neighborhood. You become very interested in the zoning laws, the tax rates, the city's/county's plans for expansion and growth, and the appearance of your neighbor's property.

If you have the option, living in military housing may be the best choice for the mobile lifestyle military members live. While in housing you will not receive basic allowance for housing (BAH). However, many of your costs the Army covers and you pay no monthly housing payments. The reality for most service members is that military housing is unavailable or the waiting list is so long that they must find other

housing first. In this case, you will receive your housing allowance and pay all housing costs yourself. BAH bases its calculations on rental costs by pay grade, dependency status, and location. It does not cover all your housing costs but allows you to maintain a standard quality of housing regardless of your duty station to the Military Pay Issues module.

Renters should always complete a thorough checklist upon move in, keep a copy signed by you and the landlord, and provide one to the landlord. This will protect you when you move out from being charged for repairs on preexisting conditions. Be sure to cover everything, down to a crack in the wall, window, or paint. Even though it seems extensive, no item is too small to note. Some landlords have charged service members for a multitude of problems that existed before they even moved in. Any damage deposit you paid, the landlord will refund to you after a successful checkout walkthrough. However, for your protection, bring with you the checklist you completed when you first moved into the residence. That way the landlord cannot charge you for any preexisting damage.

**Break: Time:** 00:50 to 01:00

### **What Are Your Goals in Buying a Home?**

The most important step in buying a home is defining what you want. Your goals might seem obvious. Your growing family needs a larger home but don't let what seems obvious set your limits. Sit down with the family and talk about your dream house. Make a list. Try to balance your needs and wants. Start by thinking about your present home and identify which features you really like. Next, envision your new home and try to build it in your mind. Does it have more bedrooms than your present home or a workbench in the garage, a fireplace, gas or electric stove?

Take the list you've created and divide it into "needs" and "wants." The "needs" list will narrow your search by eliminating those houses that are hopelessly wrong for you. Your "wants" list will help you. Choose among the remaining possibilities and determine what you can afford. Set your price range first. Know what you can afford



Looking at homes that are beyond a comfortable price limit will only result in frustration and wasted energy. The upper limit of your price range is the mortgage loan amount for which you qualify. However, keep one thing in mind--you may not want to purchase a home priced at your upper limit; make an honest assessment of your lifestyle.

### **Down Payment**

A down payment is money you agree to pay, usually in a cashiers check, at the time of purchase. Your down payment will probably affect your price range because the company bases the loan amount on the purchase price, minus the down payment.

### **The Typical Down Payment For Various Loans are:**


- Conventional loans normally require 20 percent of the loan amount, with a minimum 5 to 10 percent. The federal government does not guarantee or insure conventional loans.
- FHA (Federal Housing Administration) loans normally require 3 to 5 percent down and are available in all 50 states. Government insures FHA loans.
- VA loans require no down payment. However, loan amounts are generally higher than FHA loans. Both FHA and VA maximum loan amounts change periodically and the Department of Veterans Affairs guarantee them.

### **Monthly Debt Ratio**


Mortgage payment should not exceed 28 percent of your gross monthly income. All monthly debt obligations, including your mortgage payment, should not exceed 36 percent of your combined gross monthly income. VA will allow a total monthly debt ratio of 41 percent; these ratios are not as ironclad as they once were. Today, new buyers with good credit, adequate assets, and an above-average down payment can qualify for a mortgage loan with higher ratios. The housing expense includes what you pay monthly (rent or mortgage/insurance/taxes) plus all utilities. Available income refers to what is left after taxes and normal deductions. If you are

paying more than 36 percent in monthly debt obligations, you are likely to be living beyond your means, and high housing costs may be limiting the rest of your budget.

#### SHOW VGT-4, CHOOSING A MORTGAGE LOAN



**CHOOSING A MORTGAGE LOAN**



**Choosing a Mortgage Loan. There are many types from which to choose from:**

<b>Assumption</b>	<b>Buy Down</b>
<b>Fixed-Rate Loans</b>	<b>Step Loans</b>
<b>Adjustable Rate Loans</b>	<b>FHA Loans</b>
<b>Balloon Loans</b>	<b>VA Loans</b>

L429OCT88/VGT-4Advanced Noncommissioned Officer Course

Ref: SH-3, Personal Financial Management, p 22 thru 25

#### **Choosing a Mortgage Loan**

Unless you have the cash to pay in full for your home, you will need to apply for a mortgage loan. There are many types from which to choose.

##### **Assumption**

You might want to consider assuming the seller's existing loan and interest rate if the rate on the assumable loan is lower than the prevailing rate for a new loan. By assuming a loan, you take responsibility for paying the mortgage owed by the seller.

##### **Buy Down**

If you cannot afford the prevailing interest rate, consider a buy down mortgage. The seller or even a family member can pay extra points to buy down the mortgage for the first few years. For example, a 3-2-1 buy down with a prevailing rate of 7 percent means that the first year you would pay 4 percent, the second year 5 percent, the third year 6 percent, and then the fourth and remaining years, the interest rate would be 7 percent. Buy-downs are common among new construction and first-time homebuyers.

## **Fixed-Rate Loans**

Fixed-Rate Loans are the most popular loans in the market because they offer stable, consistent payment throughout the life of the loan. The most common is the 30-year fixed rate. Other options are the 15-year (saves half the interest over 30-years), the 20-year (saves thousands of dollars of interest over the 30-year), and the relatively new 40-year (reduces the payment below a 30-year but adds three times the loan amount in interest)

## **Adjustable Rate Loans**

Adjustable Rate Loans consist of a variable interest rate that fluctuates according to the financial index they are tied to and the type of adjustable rate mortgages (ARM) obtained. Some features that make them attractive even when the fixed interest rate is low are the following:

- First-year rate (the teaser rate) is usually 1 or 2 points below the market rate.
- Interest rate, although capped, can rise only 5 (FHA) or 6 points (depending on whether it is a FHA or conventional loan) over the life of the loan.
- Rise of interest rates limit the points to 1 or 2 points a year (depending on the type of loan).
- Research indicates that you pay less interest with ARM than with a 30-year fixed rate mortgage. Most useful to homebuyers who stay in the home no more than 5 to 7 years.

## **Step Loans**

Step loans combine the stability of a fixed-rate loan with the lower rates of an ARM. There are two options: 5/25 and 7/23. Step loans use a fixed interest rate for the first five or seven years, then the loan adjusts once into a 1-year ARM or a fixed-rate loan.

- The interest rates are lower than the prevailing rate for 30-year fixed rate mortgages and the loan amortizes over 30 years

## **Balloon Loans**

Interest paid during the term of the loan does not fully pay off the mortgage. At the end of the loan term, you must pay off the remaining principal in one lump sum.

- Terms are short in length, usually 5 to 7 years, but amortize over 30 years.
- Usually lower interest rates than fixed-rate loans.
- Most useful to homebuyers who stay in home no more than the term of the loan.

## **FHA Loans**

Government-backed Federal Housing Administration loans, designed for first-time or lower-income homebuyers, consist of the following benefits:

- Interest rate usually less than conventional loans.
- Available in both fixed-rate and adjustable-rate mortgages.
- Down payment of 3 percent to 4 percent of loan amount.
- Maximum loan amount \$133,000.

## **VA Loans**

Backed by the Department of Veterans Affairs, VA Loans are available to veterans of the United States Armed Forces. Have your lender check the VA funding fee. A VA loan consists of the following benefits:

- Zero down payment.
- Interest rate usually less than conventional loans.
- The seller must pay points. If seller is reluctant to pay points, buyer can increase offering price to include the cost of points.
- Available only in fixed-rate mortgages.
- Maximum loan amount - \$203,000.

You may want to explore other mortgage loan options rather than use your VA. If you have to sell and a buyer comes along who wants to assume your mortgage, then your VA will be unavailable to you until that mortgage is cleared by a home sale with a substitution of a completely new mortgage. That may take years.

### **Mistaken Mortgage Assumptions**

It can be a costly mistake not knowing about the various mortgage products on the market before applying for a loan. Start by looking through the real estate section of your Saturday newspaper and seeing what interest rates and types of loans are available. If you will be in the house less than five years, strongly consider an ARM.

### **Seek Professional Help**

The path to home ownership is complex, filled with jargon that is confusing at best. If you are a first-time homebuyer, rely on the real estate and mortgage professionals that demonstrate they have your best interests foremost. If you are experiencing some financial difficulty, there are financial counselors who can assist you in managing your cash flow, balancing your budget, and improving your credit history.

### **REMOVE VGT-4**

#### **CHECK ON LEARNING:**

QUESTION: What is an adjustable rate loan?

ANSWER: A variable interest rate that fluctuates.

Ref: SH-3, p 23, para 4

QUESTION: What is the maximum VA loan that you can receive?

ANSWER: \$203,000

Ref: SH-3, p 25, para 8

QUESTION: What is a fixed rate loan?

ANSWER: The most popular loans in the market that offer stable, consistent payment throughout the loan.

Ref: SH-3, p 23, para 3

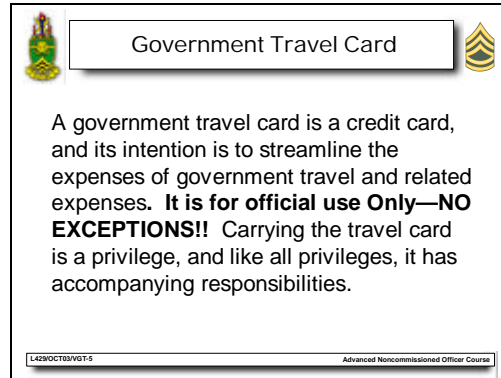
**C.**

#### **ENABLING LEARNING OBJECTIVE**

<b>ACTION:</b>	Identify the proper use of a government credit card.
<b>CONDITIONS:</b>	As a platoon sergeant in a classroom or unit environment and given a platoon of soldiers and Student Handouts 2 and 5.
<b>STANDARDS:</b>	Supervised the process for a government travel card by defining the use and maintenance of the government credit card IAW Student Handouts 2 and 5.

1. Learning Step / Activity 1. Government Travel Card  
Method of Instruction: Conference / Discussion  
Technique of Delivery: Small Group Instruction (SGI)  
Instructor to Student Ratio is: 1:16  
Time of Instruction: 30 mins  
Media: VGT-5 thru VGT-7

### SHOW VGT-5, GOVERNMENT TRAVEL CARD



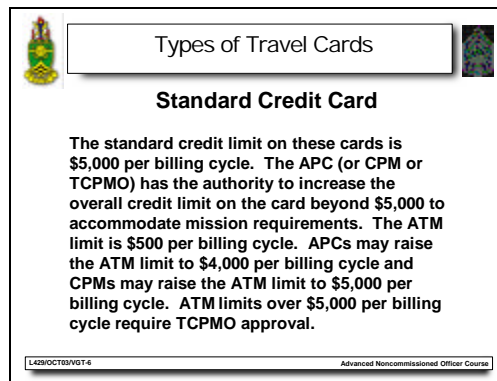
Ref: SH-2, Unit 9, Official Government Travel, p 5, para e

### Government Travel Cards

At some point in your Army career you may receive a government travel card. A government travel card is a credit card, and its intention is to streamline the expenses of government travel and related expenses. **It is For Official Use Only--NO EXCEPTIONS!!** Carrying the travel card is a privilege, and like all privileges, it has accompanying responsibilities. You must file a claim for your travel expenses and then promptly reimburse the credit card company. You will receive further procedures and responsibilities concerning the government travel card.

**REMOVE VGT-5**

## SHOW VGT-6, TYPES OF TRAVEL CARDS



Ref: SH-5 p SH-5-9

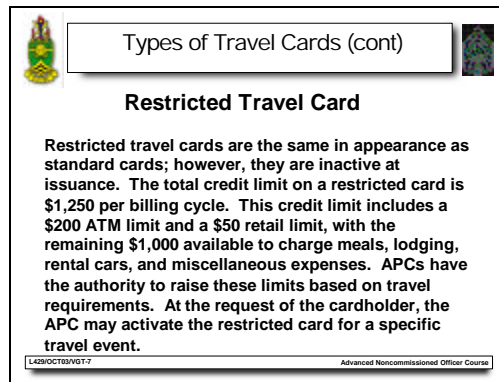
### Standard Travel Card

Individuals receive the standard travel card as recommended by the card contractor, or as directed by the commander or supervisor. The government will not issue a standard travel card to an individual who refuses a credit check under any circumstances. The standard credit limit on these cards is \$5,000 per billing cycle. The Agency Program Coordinators (APC), Component Program Manager (CPM), or the Travel Card Program Management Office (TCPMO) has the authority to increase the overall credit limit on the card beyond \$5,000 to accommodate mission requirements. The ATM limit is \$500 per billing cycle. APCs may raise the ATM limit to \$4,000 per billing cycle and CPMs may raise the ATM limit to \$5,000 per billing cycle.

- ATM limits over \$5,000 per billing cycle require TCPMO approval. DOD Components also may implement lower ATM limits.
- The retail limit (purchases for other than lodging, airfare, car rental and meals) is \$250 per billing cycle. APCs may raise the retail limit to \$500 per billing cycle on a case-by-case basis and CPMs may raise the retail limit to \$1,000 per billing cycle on a case-by-case basis.
- The effect of increases to ATM and retail limits does not automatically change the total credit limit on the card.

**REMOVE VGT-6**

**SHOW VGT-7, TYPES OF TRAVEL CARDS (cont)**



Ref: SH-5, p SH-5-9

### **Restricted Travel Cards**

Cardholders receive restricted travel cards when recommended by the card contractor (and the APC concurs), requested by the applicant, or directed by the commander or supervisor. A restricted travel card is the only individual card given to individuals who refuse credit checks. These cards are the same in appearance as standard cards; however, they are inactive at issuance. The total credit limit on a restricted card is \$1,250 per billing cycle. This credit limit includes a \$200 ATM limit and a \$50 retail limit, with the remaining \$1,000 available to charge meals, lodging, rental cars and miscellaneous expenses. APCs can raise these limits based on travel requirements. At the request of the cardholder, the APC may activate the restricted card for a specific travel event.

**REMOVE VGT-7**

### **Benefits to Travelers**

Properly used, the travel card also provides you with several benefits. For starters, you can use your card just like an ATM card and get the cash you will need for a trip without having to fill out government forms and stand in line. On longer trips you can get cash from an ATM at your temporary duty location, negating the necessity to carry excessive sums of cash while traveling. The card provides you the



flexibility to make necessary arrangements if you cancel your travel plans because of bad weather, mechanical problems, missed connections, illness, family emergency, or other unforeseen event. The card provides you substantial, no-cost insurance up to \$3000 for lost luggage and \$200,000 of travel accident insurance. Being a cardholder also provides you with a readily available source of information should you need medical or legal assistance in a strange place far removed from the nearest military facility. Not if, but when, an airline loses your luggage, card personnel will assist in getting it returned to you. If a ticket is lost or stolen, they'll get you a replacement and sort out the details later. You can also avail yourself of the same pre-trip services as civilian cardholders and check things like the weather and ATM locations before you depart.

Ref: SH-2, Unit 9, Official Government Travel, p 7, para 2a

### **Travel Card Responsibilities**

Carrying the travel card is a privilege, and like all privileges, it has accompanying responsibilities. Your first responsibility with regard to the travel card is to use it only for official travel. NO EXCEPTIONS!!! The local fancy restaurant MIGHT take your card if you use it for a nice dinner date, such use would be unauthorized and could subject you to disciplinary action. Do not use your card for personal reasons such as buying gifts for friends and family, even if you are on temporary duty. It is your responsibility to properly safeguard the card. You will be accountable for any costs arising from a lost or stolen card; however, if lost or stolen, immediately notify your APC and the card vendor. To avoid embarrassment, file your claims for travel expenses within five days after return.

By far, your biggest responsibility is to PAY YOUR BILLS ON TIME. The travel card is in your name and the credit card company sends the bills directly to you. It's your responsibility to pay them by the due date. Notify your APC when you transfer out or terminate and locate your new APC to ensure your card transfers into your new unit.

As with any credit card, your government travel card can have a negative impact on your credit report. If you see that you are not going to be able to pay your bill on time notify your supervisor. There are avenues that you can take to extend the time you have to pay possibly without any penalties. Your account will become suspended when you reach 55 days overdue and will require supervisor intervention to keep it active. Cancellation of your card will happen at the 90-day point. Cancellation of your card may also occur if a suspension has occurred twice in any 12-month period. If you fail to pay for 120 days, the company WILL start garnishment proceedings. Not only will you be responsible for the outstanding balance, you could also be responsible for up to an additional 25 percent of the balance and any collection fees. Finally, in addition to being an embarrassment to the Army, decreasing your ability to perform official duties and getting you in hot water with your chain of command, failure to pay your travel card bills on time will show on YOUR credit report, making it more difficult, if not impossible, for you to get credit for things like homes and automobiles.

### **Split-Disbursement**

The Department of Defense has introduced a new payment option for its travel cardholders through the deployment of upgraded software. Known as "split-disbursement," this option allows DOD travelers to elect a split-disbursement when submitting their travel settlement. Using the upgraded Integrated Automated Travel System (IATS 5.X), part of the payment gets sent via electronic funds transfer to the travel card contractor and the rest forwarded directly to the travelers' designated account. Used correctly, the split-disbursement option eliminates the cardholders' burden and cost of writing and mailing personal checks for travel payments. In addition, the use of direct deposit speeds the reimbursement process and reduces both administrative costs and account delinquencies. While this payment option benefits all DOD travelers, it is of particular value for those on long-term temporary

duty submitting interim travel settlements, as it allows the travel card contractor to receive payment directly.

Split Disbursement is not uncommon in the private sector. Several Fortune 500 companies have used similar practices for decades. Recognizing the private-sector successes and as part of the ongoing reform of its travel and transportation payment practices, DOD and the travel card contractor have worked to make the split-disbursement option available to all DOD travelers paid through IATS 5.X and SRD-1. Travelers wishing to elect the split-disbursement option simply need to determine the amount charged to their travel card during the billing period and specify that amount on the travel voucher (DD Form 1351-2) in block 3c. For example, if you charge \$300 to the DOD travel card for official business expenses and you use the split-disbursement option you designate this amount in block 3c as "SPLIT \$300." In the event that you designate less money than needed to cover charges to the card, you are responsible for paying the difference. Likewise, if you designate more money than necessary your card account gets credited to cover future travel expenses. The traveler also has the option to request payment of the credit by contacting the travel card contractor using the customer service number (1-800- 492-4922).

Ref: SH-2, Unit 9 Official Government Travel, p 10, para 4a

### **Government Purchase Cards**

It is possible that later in your career your commander may issue a purchase card in addition to a travel card. The purchase card allows the holder to make government-related purchases without having to first get a purchase order. With a purchase card, the credit company to the user's organization. The organization is responsible for payment. Someone at your organization checks these bills to ensure all purchases were for government-related items. Misuse of the purchase card is a CRIME.

**CHECK ON LEARNING:**

QUESTION: When does the card contractor cancel your government travel card?

ANSWER: When your account is 120 days past due.

Ref: SH-5, p SH-5-15, para e

QUESTION: What is your first responsibility with regard to the government card?

ANSWER: Use the card only for official travel.

Ref: SH-2, Unit 9 Official Government Travel, p 7, para 2a

QUESTION: When does the card contractor suspend your government card?

ANSWER: When your account is 90 days past due.

Ref: SH-5, p SH-5-14, para d

#### SECTION IV. SUMMARY

Method of Instruction: <u>Conference / Discussion</u>
Technique of Delivery: <u>Small Group Instruction (SGI)</u>
Instructor to Student Ratio is: <u>1:16</u>
Time of Instruction: <u>5 mins</u>
Media: <u>None</u>

#### Check on Learning

QUESTION: What is an adjustable rate loan?

ANSWER: Variable interest rate that fluctuates.

Ref: SH-3, p 23, para 4

QUESTION: What is the maximum VA loan amount you can receive?

ANSWER: \$203,000.

Ref: SH-3, p 25, para 8

QUESTION: What is the difference between saving and investing?

ANSWER: Saving money is eventually spent and investing money grows.

Ref: SH-2, Unit Investing/Savings/Thrift Savings Plan/REDUX, p 16, para 9a

QUESTION: Name two example of a savings instrument?

ANSWER: Regular or share account, CD, Money market account, U.S. Saving bonds.

Ref: SH-2, Unit Investing/Savings/Thrift Savings Plan/REDUX, p 17

QUESTION: When does the card contractor cancel your government travel card?

ANSWER: When your account is 120 days past due.

Ref: SH-5, p SH-5-15, para e

QUESTION: What is your first responsibility with regard to the government card?

ANSWER: Use the card only for official travel.

Ref: SH-2, Unit 9 Official government Travel, p 7, para 2a

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**Review /  
Summarize  
Lesson**

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In this lesson we have discussed the basics in financial planning for the rest of your lives and covered a lot of very important information. We began by looking at how the concept of retirement has changed in just a few short years. We then examined the three-legged stool of retirement income and addressed the Army retirement systems, with particular emphasis on those that affect you. We discussed the Thrift Savings Plan, a new benefit that can significantly assist you in saving for your retirement years; the differences between saving and investing and talked about why each is important; and the various vehicles you may use to invest for your future. We also discussed authorized official travel, your entitlement when you perform official travel, and the reimbursement process for legitimate travel expenses. Finally we discussed the difference between a government travel card and purchase card, outlining your responsibilities and use of both cards. The information you learned in this lesson will assist you in managing your personal finances and also assist you in supervising your subordinates in the management of their personal finances.

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**SECTION V.      SECTION V.      STUDENT EVALUATION**

**Testing  
Requirements**

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**NOTE:** Describe how the student must demonstrate accomplishment of the TLO. Refer student to the Student Evaluation Plan.

You will take a written examination covering the TLO and ELOs in this lesson. To receive a GO, you must correctly answer 35 of the 50 questions for a score of 70 percent or better.

**Feedback  
Requirements**

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**NOTE:** Feedback is essential to effective learning. Schedule and provide feedback on the evaluation and any information to help answer students' questions about the test. Provide remedial training as needed.

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Terminal Learning Objective

VGT-1, Three Sources Of Retirement Income



## THREE SOURCES OF RETIREMENT INCOME



- **Social Security benefits**
- **Retirement and/or pension payments**
- **Investment income**





## THRIFT SAVINGS PLAN ENROLLMENT



- **Two open enrollments each year: October 15-December 31 and April 15– June 30.**
- **How to enroll in TSP: your local Finance Office or PAC will have the forms. Forms are also available at [www.tsp.gov](http://www.tsp.gov). Follow the prompts to download and/or print the form.**



## CONTROL OF YOUR TSP FUNDS



**Your contributions belong to you and you have control over them. You exercise this control by directing in which of five funds you will invest your money. The five funds are the G, F, C, S, and I funds.**



## CHOOSING A MORTGAGE LOAN



**Choosing a Mortgage Loan. There are many types from which to choose from:**

**Assumption**

**Buy Down**

**Fixed-Rate Loans**

**Step Loans**

**Adjustable Rate Loans**

**FHA Loans**

**Balloon Loans**

**VA Loans**



## Government Travel Card



A government travel card is a credit card, and its intention is to streamline the expenses of government travel and related expenses. **It is for official use Only—NO EXCEPTIONS!!** Carrying the travel card is a privilege, and like all privileges, it has accompanying responsibilities.



## Types of Travel Cards



### Standard Credit Card

**The standard credit limit on these cards is \$5,000 per billing cycle. The APC (or CPM or TCPMO) has the authority to increase the overall credit limit on the card beyond \$5,000 to accommodate mission requirements. The ATM limit is \$500 per billing cycle. APCs may raise the ATM limit to \$4,000 per billing cycle and CPMs may raise the ATM limit to \$5,000 per billing cycle. ATM limits over \$5,000 per billing cycle require TCPMO approval.**



## Types of Travel Cards (cont)



### **Restricted Travel Card**

**Restricted travel cards are the same in appearance as standard cards; however, they are inactive at issuance. The total credit limit on a restricted card is \$1,250 per billing cycle. This credit limit includes a \$200 ATM limit and a \$50 retail limit, with the remaining \$1,000 available to charge meals, lodging, rental cars and miscellaneous expenses. APCs have the authority to raise these limits based on travel requirements. At the request of the cardholder, the APC may activate the restricted card for a specific travel event.**

**Appendix B Test(s) and Test Solution(s) (N/A)**

## **Appendix C Practical Exercises and Solutions (N/A)**



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**HANDOUTS FOR LESSON 1: L429 version 1**

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**This Appendix  
Contains**

This appendix contains the items listed in this table--

<b>Title/Synopsis</b>	<b>Pages</b>
SH-1, Advance Sheet	SH-1-1 and SH-1-2
SH-2, Extracted Material from U.S Army Personal Financial Management Training Instructor Guide, 2002	SH-2-1
SH-3, Extracted Material from Personal Financial Management	SH-3-1
SH-4, Extracted Material from DOD Financial Management Regulation on Split Disbursement Payment	SH-4-1 and SH-4-2
SH-5, Extracted Material from DOD Financial Management Regulation, Vol 9, Chap 3	SH-5-1 and SH-5-16

## **Student Handout 1**

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This student handout contains the Advance Sheet.

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# Student Handout 1

## Advance Sheet

### Lesson Hours

This lesson consists of two hours of small group instruction.

### Overview

This lesson provides information that will help you enhance the financial readiness of your unit. The lesson identifies the different support agencies that can assist soldiers and their families; identifies various retirement concepts and the three-legged stool of the retirement stool; defines the Thrift Savings Plan that can significantly assist you in saving for retirement; explains to you the difference between renting or buying and the various agencies to assisted you in buying your first home; and explains the procedures and responsibilities when using the government credit card.

### Learning Objective

Terminal Learning Objective (TLO).

<b>Action:</b>	Supervise subordinates in management of personal finance.
<b>Conditions:</b>	As a platoon sergeant, in a classroom or unit environment and given a platoon and Student Handouts 1 thru 5.
<b>Standards:</b>	Supervised subordinates in management of personal finances by-- <ul style="list-style-type: none"><li>• Identifying the many sources of retirement income,</li><li>• Identifying the various processes in buying a home,</li><li>• Identifying the proper use of government credit card,</li></ul> IAW Student Handouts 1 thru 5.

**ELO A** Identify the many sources of retirement income.

**ELO B** Identify the various processes in buying a home.

**ELO C** Identify the proper use of government travel card.

### Assignment

The student assignments for this lesson are:

- Read SH-1 thru SH-5.

### Additional Subject Area Resources

None

### Bring to Class

- Student Handouts 1 thru 5.
- Pencil or pen and writing paper.

## Student Handout 2

### Extracted Material from U.S. Army Personal Financial Management Training Instructor Guide, 2002.

**This Student  
Handout  
Contains**

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This student handout contains 15 pages from the U .S. Army Personal Financial Management Training Instructor Guide, 2002.

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Item/Title	Pages
Unit 8, Investments/Savings/Thrift Savings Plan/REDUX	3 thru 19
Unit 9, Official Government Travel	5 thru 10

**Disclaimer:** The training developer extracted the material from the U.S. Army Personal Financial Management training Instructor Guide. The text may contain passive voice, misspellings, grammatical errors, ect. and may not be in compliance with the Army Writing Style Program.

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#### RECOVERABLE PUBLICATION

YOU RECEIVED THIS DOCUMENT IN A DAMAGE-FREE CONDITION. DAMAGE IN ANY WAY TO INCLUDE HIGHLIGHTING, PENCIL MARKS, OR MISSING PAGES WILL SUBJECT YOU TO PECUNIARY LIABILITY (STATEMENT OF CHARGES, CASH COLLECTION ETC.) TO RECOVER PRINTING COSTS

## Unit 8. INVESTMENTS/SAVINGS/THRIFT SAVINGS PLAN/REDUX

---

### Topic 8.1 Investments/Savings/Thrift Savings Plan/REDUX

#### Three sources of Retirement Income.

- a. Retirement income is often described as a three-legged stool. The three legs are: Social Security benefits; Retirement and/or pension payments; and Investment income.
- b. **Social Security/FICA.** The FICA withholding you see on your Leave and Earnings Statement (LES) is your Social Security contribution. Persons your age will be eligible to draw full Social Security benefits beginning at age 67. It will probably be about a \$1,000 a month or less in terms of today's dollars.
- b. SHOW SLIDE 8-5 SOCIAL SECURITY

#### RELATED INSTRUCTOR ACTIVITY

- 3. SHOW SLIDE 8-3 REGARDING INVESTMENT INFORMATION.
- 4. SHOW SLIDE 8-4 SOURCES OF RETIREMENT INCOME.

## Unit 8. INVESTMENTS/SAVINGS/THRIFT SAVINGS PLAN/REDUX

---

### Topic 8.1 Investments/Savings/Thrift Savings Plan/REDUX

After you have been working for a year or two, you should ensure the Social Security Administration is tracking your employment by requesting an Earnings and Benefits Estimate. You will begin automatically receiving annual statements at age 25.

- c. **Types of Retirement Plans.** The second leg of the retirement income stool is Retirement Benefits and Pensions. Some of you may retire from the military, begin a second career, and retire again. Others may leave the service prior to retirement and become employed in the civilian world. In either case, I strongly suggest you examine an employer's retirement plans and pension benefits when deciding to take, or remain in, any specific job. At this time in your life you are in the military and we will concentrate on military retirement benefits. There are two types of retirement plans, Defined Benefit and Defined Contribution. Today's Army has both.

- c. SHOW SLIDE 8-6 TYPES OF RETIREMENT PLANS

### RELATED INSTRUCTOR ACTIVITY

## Unit 8. INVESTMENTS/SAVINGS/THRIFT SAVINGS PLAN/REDUX

---

### Topic 8.1 Investments/Savings/Thrift Savings Plan/REDUX

- (1) **Defined Benefit Plans.** Defined Benefit Plans are the more traditional type. The employer funds them, and one must usually work a relatively long time to become eligible for a pension check. The amount of monthly pension is normally based on salary and the number of years worked, and is guaranteed for life. These plans may or may not include cost of living increases. (Military retirement does.)
- (2) **Defined Contribution Plans.** Defined Contribution Plans have become increasingly popular over the last 20 years or so. These plans allow employees to contribute up to a certain amount of their salary each month, before taxes, to a fund that they have a significant amount of control over. Sometimes, frequently in the civilian world, employers will match a portion of each month's contributions. The most common are 401(k) plans, named after the regulating paragraph in the Federal Income Tax Code. There is no guarantee with this type of plan. Workers eventually receive a lump sum payout, which they can then invest for future income. These sums can be quite large, however, the amount depends on how much the worker has invested, and the earning of the specific investment plan.

(1) SHOW SLIDE 8-7 DEFINED BENEFIT PLANS

(2) SHOW SLIDE 8-8 DEFINED CONTRIBUTION PLANS

## Unit 8. INVESTMENTS/SAVINGS/THRIFT SAVINGS PLAN/REDUX

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### Topic 8.1 Investments/Savings/Thrift Savings Plan/REDUX

5. **Military Retirement Plans.** Let's briefly summarize the two retirement options discussed in the movie, the "High Three" or "CBS/REDUX," that you will have if you retire from the Army. Members who entered service after 31 July 1986 must choose between the "High Three" or the "CBS/REDUX" at the 15th year of service.
  5. SHOW SLIDE 8-9 MILITARY RETIREMENT PLANS
    - 1) Click on hyperlink to show the TSP video.
    - 2) Select "View"
    - 3) Select "Full Screen"
    - 4) Turn Volume Up on Speakers

At end of video:

    - 1) Right Click Mouse
    - 2) Click on "X"
6. **The Effects of Compound Interest.** Before we discuss the basic details of TSP, let's look at how compound interest grows over the short and long term. TSP is based on the effects of compounding interest over time.
  6. SHOW SLIDE 8-10 EFFECTS OF COMPOUND INTEREST

Double click on hyperlink and show effects of compound interest starting early in life and starting later in life.

Direct student to Information Sheet 8-1-1, Effects of Compound Interest: Early in Life.

Direct student to Information Sheet 8-1-2, Effects of Compound Interest: Later in Life.



## **Unit 8. INVESTMENTS/SAVINGS/THRIFT SAVINGS PLAN/REDUX**

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### **Topic 8.1 Investments/Savings/Thrift Savings Plan/REDUX**

#### **DISCUSSION TOPIC**

#### **7. The Thrift Savings Plan.**

- a. Up until now, the only retirement plans available to service members fell into the category of Defined Benefit Plans. However, beginning October 9, 2001, in addition to your Defined Benefits Plan, you and all other service members will have access to a Defined Contributions Plan—the Thrift Savings Plan. We will discuss the basics of TSP. You can go to the TSP website to learn more about the program and the various investment funds. We'll look at how it works and what it can do for you.

(1) **SHOW SLIDE 8-11 THRIFT SAVINGS PLAN (TSP) BENEFITS**

#### **(1) Benefits of TSP.**

- (a) It's easy to enroll and maintain your investment plan.
- (b) There are no costs to the individual for management of the program by the TSP Management Board.
- (c) Money contributed to TSP is Pre-Tax Dollars. It is NOT counted as taxable income. You will eventually have to pay taxes upon withdrawal.

## Unit 8. INVESTMENTS/SAVINGS/THRIFT SAVINGS PLAN/REDUX

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### Topic 8.1 Investments/Savings/Thrift Savings Plan/REDUX

- (2) SHOW SLIDE 8-12 THRIFT SAVINGS PLAN (TSP) ENROLLMENT PERIODS

(2) **The Thrift Savings Plan (TSP) Enrollment**

Two Open Enrollments each year:  
October 15- December 31 and April 15– June 30\*

\*These Dates are effective October 1, 2002. Old enrollment period (May 15-July 31, 2002) in effect until September 30, 2002.

- (3) SHOW SLIDE 8-13 THRIFT SAVINGS PLAN (TSP) HOW TO ENROLL

(3) **How to Enroll in TSP.**

Direct Students to Information Sheet 8-1-3, Sample TSP Enrollment Form.

- (a) Your local Finance Office or PAC will have the forms. Forms are also available at [www.tsp.gov](http://www.tsp.gov). Follow the prompts to download and/or print.

- b. SHOW SLIDE 8-14 TSP CONTRIBUTION SOURCES

b. **TSP Contribution Sources.**

***STRESS THE FOLLOWING POINTS:***

- (1) Select all the contribution sources boxes on the TSP Enrollment Form even if you are not receiving special, incentive, or bonus pays. If you do not select the special, incentive, or bonus blocks and then start receiving them you cannot contribute those moneys into TSP until you resubmit the form.

## Unit 8. INVESTMENTS/SAVINGS/THRIFT SAVINGS PLAN/REDUX

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### Topic 8.1 Investments/Savings/Thrift Savings Plan/REDUX

- (2) Especially important is the bonus selection. If you do not select the contributing from bonus block and you eventually receive one, you cannot put any of the money into TSP. Once you receive the bonus money you cannot put it into your TSP account.

- (3) If you stop contributing from base pay all other sources of contributions stop.

c. SHOW SLIDE 8-15 HOW MUCH CAN YOU CONTRIBUTE?

c. **TSP Contribution Amounts.**

- (1) You can contribute up to 7% of your base pay and up to 100% of any special pays, incentive pays, or bonuses up to the IRS maximum, currently at \$11,000 per year.

Currently there is no employer matching dollars from the Government.

### RELATED INSTRUCTOR ACTIVITY

## Unit 8. INVESTMENTS/SAVINGS/THRIFT SAVINGS PLAN/REDUX

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### Topic 8.1 Investments/Savings/Thrift Savings Plan/REDUX

- d. **Control of your TSP Funds.** Your contributions belong to you and you have control over them. This control is exercised by directing which of five funds your money is invested in. These funds are known as the G, F, C, S, and I funds.

- (1) **TSP G Fund.** "G" Fund will invest in Government securities and is guaranteed against loss.
- a) Invested in non-marketable U.S. Treasury Securities with 1 to 4 day maturities.
  - b) No risk of loss (negative returns) in "G" Fund.
  - c) The "G" fund has never lost money although the rate of return on your investment is usually between 4 and 7%. The compound annual rate of return from 1992 to 2001 was 6.47%.

- d. SHOW SLIDE 8-16 TSP CONTROL

Direct students to Information Sheet 8-1-4, Thrift Savings Plan Fund Types.

- (1) SHOW SLIDE 8-17 TSP "G" FUND

Note: CARR = Compound Annual Rate of Return.

## Unit 8. INVESTMENTS/SAVINGS/THRIFT SAVINGS PLAN/REDUX

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### Topic 8.1 Investments/Savings/Thrift Savings Plan/REDUX

- (2) **TSP F Fund.** "F" Fund will invest in corporate and Government bonds.

(2) SHOW SLIDE 8-18 TSP "F" FUND

- a) Invested in a bond index fund.
- b) U.S. Government: U.S. Treasury and Agencies.
- c) Mortgage-backed securities.
- d) CARR from 1992-2001 was 7.19%

SHOW SLIDE 8-19 TSP "C" FUND

- (3) **TSP C Fund.** "C" Fund will basically track performance of the stock market.

- a) Invested in a Standard & Poor's (S&P) 500 stock index fund.
- b) S&P 500 index contains common stocks of 500 companies that represent the U.S. stock markets.
- c) Compound annual rate of return from 1992 to 2001 was 12.88%.

## Unit 8. INVESTMENTS/SAVINGS/THRIFT SAVINGS PLAN/REDUX

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### Topic 8.1 Investments/Savings/Thrift Savings Plan/REDUX

(4) SHOW SLIDE 8-20 TSP “S” FUND

- 4) **TSP S Fund.** "S" Fund invests in small to medium sized U.S. companies.
- a) Invested in a Wilshire 4500 stock index fund.
  - b) Wilshire 4500 index contains all common stocks (except those in the S&P 500 index) actively traded in the U.S. stock markets on a daily basis.
  - c) Compound annual rate of return from 1992 to 2001 was 10.71%.

(5) SHOW SLIDE 8-21 TSP “I” FUND

- (5) **TSP I Fund.** "I" Fund invests entirely in non-U.S. companies.
- a) Will be invested in a Europe, Australasia, and Far East (EAFE) stock index fund.
  - b) EAFE contains stocks that cover approximately 60% of the stock markets of the 20 countries included in the index.
  - c) Compound annual rate of return from 1992 through 2001 was 4.38%.

## Unit 8. INVESTMENTS/SAVINGS/THRIFT SAVINGS PLAN/REDUX

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### Topic 8.1 Investments/Savings/Thrift Savings Plan/REDUX

- e. The C, S, and I Fund performance will be directly proportional to the success of the companies in which they invest. We will discuss the concept of investing and associated risk in a few minutes. For now, suffice it to say that the fund you choose will be determined by the return you desire, balanced with the risk you can afford.

- e. SHOW SLIDE 8-22 TSP FUND PERFORMANCE

- f. **TSP Contribution Allocation.**

- (1) After your initial enrollment and election request has been processed, TSP will deposit your first contribution in to the G Fund.
- (2) Once the first contribution is received you will then receive a TSP PIN. You can then begin making contribution allocations among the various funds using the TSP Thrift line, Website, or via mail.
- (3) Prior to allocating your contributions to funds other than the G Fund, you will have to acknowledge that you understand the risk associated with investing in the stock market.

#### DISCUSSION POINT

## Unit 8. INVESTMENTS/SAVINGS/THRIFT SAVINGS PLAN/REDUX

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### Topic 8.1 Investments/Savings/Thrift Savings Plan/REDUX

- (4) Allocations must be made between the funds in increments of 1%. E.g. If you elect to contribute 3%, you may want to put 1% in the "G" Fund and 2% in the "C" Fund.

g. **Additional benefits of TSP.**

- (1) **Loans.** Two types of loans can be made from your TSP account, a general purpose loan, or a loan for a primary residence. All loan payments, plus interest, is paid back directly into your TSP account. Remember, TSP is an investment for your retirement. It is not recommended to take a loan from your account as it has a negative impact on the compound interest feature of the TSP plan.
- (2) **Rollovers.** On separation or retirement you can roll the funds in TSP to a qualified 401k plan. While on active duty you can rollover a qualified Individual Retirement Account (IRA) into TSP.
- (3) **Interfund Transfers.** You can move your invested money between the various funds, once a month, 12 times a year.

g. SHOW SLIDE 8-24 ADDITIONAL THRIFT SAVINGS PLAN (TSP) BENEFITS



## Unit 8. INVESTMENTS/SAVINGS/THRIFT SAVINGS PLAN/REDUX

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### Topic 8.1 Investments/Savings/Thrift Savings Plan/REDUX

- (4) **Financial hardship withdrawals.** Verifiable financial hardship. e.g. Medical bills. All contributions to TSP will be terminated for six months after a hardship withdrawal.
- (5) **Contribution allocations.** You can increase or decrease the percentage you allocate to each fund as often as you are paid, or twice a month.

h. SHOW SLIDE 8-25 OPTIONS UPON SEPARATION OR RETIREMENT

h. **TSP Options upon retirement or separation.**

- (1) Leave your money in the TSP. You cannot make further contributions but your money continues to accrue.
- (2) Take a Single payout. The payment is made directly to you after a 20% deduction for fees. Rollover into an IRA or 401k.
- (3) Receive Monthly payments starting at age 59 ½. There are substantial penalties for withdrawing the money prior to 59 ½.

### RELATED INSTRUCTOR ACTIVITY

## Unit 8. INVESTMENTS/SAVINGS/THRIFT SAVINGS PLAN/REDUX

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### Topic 8.1 Investments/Savings/Thrift Savings Plan/REDUX

#### RELATED INSTRUCTOR ACTIVITY

- i. **Your responsibilities with TSP.** Once enrolled in TSP you have additional responsibilities:

- (1) Make contribution elections.
- (2) Make investment and allocation decisions.
- (3) Keep accurate up-to-date personal information.
- (4) Designate a beneficiary.

- j. **TSP Website.**

- (1) For more in-depth information on the TSP program go to [www.tsp.gov](http://www.tsp.gov). Then look under Uniformed Services. Frequently Asked Questions is an excellent source.

- i. SHOW SLIDE 8-26 YOUR RESPONSIBILITIES

#### 9. **Saving vs. Investing.**

- a. Recall that the third leg of our retirement planning stool is investment income. There are several differences between investing money and merely saving it. Recognize that the ultimate purpose of saving money is to eventually spend it. Savings accounts are virtually 100% safe, as most are insured by the Federal Government.

9. SHOW SLIDE 8-27 SAVING VS. INVESTING

## Unit 8. INVESTMENTS/SAVINGS/THRIFT SAVINGS PLAN/REDUX

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### Topic 8.1 Investments/Savings/Thrift Savings Plan/REDUX

#### RELATED INSTRUCTOR ACTIVITY

Conversely, the purpose of investing money is to allow it to grow. Investing is generally thought of in terms of a significant time span, five years or more. Even optimum savings instruments have limited ability to overcome the effects of inflation and taxes, both of which decrease the value of our money. Wise investments will mitigate these effects.

Investing involves some degree of risk. However, the greatest risk is not making prudent investments, and therefore not growing your money to meet your retirement needs. Because saving and investing have different purposes, different instruments are used for each.

- a. **Instruments of Savings.** Savings instruments that are highly safe, and liquid, but provide relatively low yields include:

- (1) Regular or share savings accounts.
- (2) Certificates of deposit (CD).
- (3) Money market accounts.
- (4) U.S. savings bonds. New Series I bond is tied to rate of inflation.

- a. SHOW SLIDE 8-28 SAVINGS INSTRUMENTS

## Unit 8. INVESTMENTS/SAVINGS/THRIFT SAVINGS PLAN/REDUX

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### Topic 8.1 Investments/Savings/Thrift Savings Plan/REDUX

- b. **Investment Assets.** Investment instruments fall into one of two categories: equity or debt.

(1) **Equity assets**, you invest as an owner.

- a) Growing assets such as stocks.
- b) Hard assets such as real estate.

(2) **Debt assets**, you invest as a lender.

- a) Bonds (some can be used by companies and varying levels of government)

- c. **Instruments of Investment.**

(1) As you become more financially capable and knowledgeable about investing you may want to consider other investment instruments in addition to TSP, such as:

- a) **Individual Retirement Account (IRA).** Similar to TSP funds, but purchase through financial institutions like banks, credit unions, or investment firms. Note: Unlike TSP there will be fees, paid to the financial institution, associated with opening an IRA.

- b. SHOW SLIDE 8-29 INVESTMENT ASSETS

- c. SHOW SLIDE 8-30 INVESTMENT INSTRUMENTS

## Unit 8. INVESTMENTS/SAVINGS/THRIFT SAVINGS PLAN/REDUX

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### Topic 8.1 Investments/Savings/Thrift Savings Plan/REDUX

- b) **Direct purchase of bonds or stocks** through a brokerage house. Note: Unlike TSP there will be fees, paid to the brokerage house, associated with purchasing bonds or stocks.
- c) **Mutual Funds.** Purchase of stocks and bonds with a pool of investors who have similar goals. Note: Unlike TSP there will be fees associated with purchasing mutual funds.

Note: Historically, over the last 70 years, the stock market returned an average of 10% to 12%, while bond returns averaged 4% to 7%. However, you should recognize that there are years, and periods of several years, where bonds significantly out-performed stocks.

## Unit 9. OFFICIAL GOVERNMENT TRAVEL

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### Topic 9.1 Official Government Travel

#### e. Travel Reimbursement

- (1) The last step for any government travel is to get reimbursed for the money you have spent during official travel. In order to collect this money you will have to file a travel voucher within five days of your return. To file this voucher, you will need copies of your orders (I told you not to lose them!); the receipt portion of any airline, train, or bus tickets; and a receipt for your lodging. You must also turn in any unused portions of previously purchased tickets.

#### 3. Government Travel Cards.

- a. At some point in your Army career you may be issued a Government travel card. A government travel card is a credit card and its intention is to streamline the expenses of government travel and related expenses. **It is for official use Only--NO EXCEPTIONS!!** Carrying the travel card is a privilege, and like all privileges, it has accompanying responsibilities. You must file a claim for your travel expenses and then promptly reimburse the credit card company. Further procedures and responsibilities will be explained to you should you ever be given a Government Travel Card.

e. SHOW SLIDE 9-6 TRAVEL REIMBURSEMENT

3. SHOW SLIDE 9-7 GOVERNMENT TRAVEL CARDS.

## Unit 9. OFFICIAL GOVERNMENT TRAVEL

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### Topic 9.1 Official Government Travel

- (1) **Benefits to Travelers.** Properly used, the travel card also provides you with several benefits.
- a) For starters, you can use your card just like an ATM card and get the cash you will need for a trip without having to fill out Government forms and stand in line. On longer trips you can get cash from an ATM at your temporary duty location, negating the necessity to carry excessive sums of cash while travelling.
  - b) The card provides you the flexibility to make necessary arrangements if your travel plans are disrupted by bad weather, mechanical problems, missed connections, illness, family emergency, or other unforeseen event.
  - c) The card provides you substantial, no-cost insurance—up to \$3000 for lost luggage and \$200,000 of travel accident insurance.

- (1) SHOW SLIDE 9-8 BENEFITS TO TRAVELERS

## Unit 9. OFFICIAL GOVERNMENT TRAVEL

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### Topic 9.1 Official Government Travel

- d) Being a cardholder also provides you with a readily available source of information should you need medical or legal assistance in a strange place far removed from the nearest military facility. Not if, but when, an airline loses your luggage, card personnel will assist in getting it returned to you. If a ticket is lost or stolen, they'll get you a replacement and sort out the details later. You can also avail yourself of the same pre-trip services as civilian card-holders and check things like the weather and ATM locations before you depart.

- (2) **Travel Card Responsibilities.** Carrying the travel card is a privilege, and like all privileges, it has accompanying responsibilities.

- a) Your first responsibility with regard to the travel card is to use it only for official travel. **NO EXCEPTIONS!!!** The local fancy restaurant **MIGHT** take your card if you used it for a nice dinner

- (2) **SHOW SLIDE 9-9 TRAVEL CARD RESPONSIBILITIES**



## Unit 9. OFFICIAL GOVERNMENT TRAVEL

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### Topic 9.1 Official Government Travel

date, but this would not be an authorized use, and could subject you to disciplinary action. Do not use your card for personal reasons such as buying gifts for friends and family, even if you are on temporary duty.

- b) It is also your responsibility to properly safeguard the card. You will likely be held accountable for any costs arising from a lost or stolen card.
- c) By far, your biggest responsibility is to **PAY YOUR BILLS ON TIME**. The travel card is used in your name, the bills are sent to you, and it is your responsibility to pay them by the due date.

#### *EMPHASIZE THE FOLLOWING POINT:*

Ladies and gentlemen, this is a serious problem for the United States Army. As of February 2001, there were over 10,000 delinquent travel card accounts with the current issuing company, the Bank of America. Such delinquencies decrease the card company's profit and will have serious repercussions for you.

## Unit 8. INVESTMENTS/SAVINGS/THRIFT SAVINGS PLAN/REDUX

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### Topic 8.1 Investments/Savings/Thrift Savings Plan/REDUX

- (3) **Overdue Accounts.** As with any credit card, your government travel card can have a negative impact on your credit report. If you see that you are not going to be able to pay your bill on time notify your supervisor. There are avenues that can be taken to extend the time you have to pay possibly without any penalties.
- (3) SHOW SLIDE 9-10 OVERDUE ACCOUNTS
- a) When your account becomes 55 days overdue, your card will be suspended and will require supervisor intervention to keep it active.
- b) At the 90 point your card will be canceled. Your card may also be canceled if suspended twice in any 12-month period.
- c) If you fail to pay for 120 days, the company WILL start garnishment proceedings. Not only will you be responsible for the outstanding balance, you could also be responsible for up to an additional 25% of the balance and any collection fees.

## Unit 8. INVESTMENTS/SAVINGS/THRIFT SAVINGS PLAN/REDUX

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### Topic 8.1 Investments/Savings/Thrift Savings Plan/REDUX

- d) Finally, in addition to being an embarrassment to the Army, decreasing your ability to perform official duties, and getting you in hot water with your chain of command, failure to pay your travel card bills on time will be recorded on YOUR credit report, making it more difficult, if not impossible, for you to get credit for things like homes and automobiles.

#### 4. **Government Purchase Cards.**

- a. It is possible that later in your career you may be issued a purchase card in addition to a travel card. The purchase card allows the holder to make government-related purchases without having to first get a purchase order. With a purchase card, the bills are sent from the credit card company to the user's organization. The organization is responsible for payment. There will be someone at your organization who checks these bills to ensure all purchases were for Government-related items. Misuse of the purchase card is a CRIME.

4. SHOW SLIDE 9-11 GOVERNMENT PURCHASE CARDS

5. SHOW SLIDE 9-12 QUESTIONS

#### 5. **Questions.**

## Student Handout 3

### Extracted Material from Personal Financial Management

**This Student  
Handout  
Contains**

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This student handout contains 4 pages of extracted material from Personal Financial Management.

Item/Title	Pages
Personal Financial Management on Housing.	22 thru 25

**Disclaimer:** The training developer extracted the material from the Personal Financial Management . The text may contain passive voice, misspellings, grammatical errors, etc. and may not be in compliance with the Army Writing Style Program.

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**Rate protection option** - enabling you to lock-in at the current rate (or slightly higher), but, for a fee, lower your interest if rates fall during the processing period.

## 2. Referrals

Friends and co-workers can be an excellent source for finding a lender that you are comfortable with.

- ◆ Thoroughness. You want a loan officer that lists all necessary documents to bring to the first visit.
- ◆ Options. You want a lender that can offer several options, is knowledgeable of those options, and takes the time to explain them to you.

**Handout:**  
*Mortgage Affordability Chart*

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## *Choosing a Mortgage Loan*

Unless you have the cash to pay in full for your home, you will need to apply for a mortgage loan. There are many types from which to choose.

### 1. Assumption

Consider assuming the seller's existing loan – and interest rate — if the rate on the assumable loan is lower than the prevailing rate for a new loan. By assuming a loan, you take responsibility for paying the mortgage owed by the seller

### 2. Buy Down

If you cannot afford the prevailing interest rate, consider a buy down mortgage. The seller or even a family member can pay extra points to buy down the mortgage for the first few years. For example, a 3-2-1 buy down with a prevailing rate of 7% means that the first year you would pay 4%, the second year, 5%, the third year, 6%,

and then the fourth and remaining years, the interest rate would be 7%. Buy-downs are common among new construction and first-time home buyers.

### 3. Fixed-Rate Loans

These are the most popular loans in the market because they offer stable, consistent payment throughout the life of the loan. The most common is the 30-year fixed rate. Other options are the 15-year (save half the interest over a 30-year), the 20-year (saves thousands of dollars of interest over the 30-year), and the relatively new 40 year (reduces the payment below a 30-year but adds three times the loan amount in interest).

### 4. Adjustable Rate Loans

A variable interest rate that fluctuates according to the financial index they are tied to and the type of ARM obtained. Some features that make them attractive even when the fixed interest rate is low are:

- ◆ First-year rate (the teaser rate) usually 1 or 2 points below the market rate.
- ◆ interest rate is capped. can rise only 5 (fha) or 6 points (depending on whether fha or conventional loan) over the life of the loan.
- ◆ rise of interest rate is limited to 1 or 2 points a year (depending on type of loan).
- ◆ research indicates that less interest paid with arm than with 30-year fixed rate mortgage.
- ◆ most useful to homebuyers who stay in home no more than 5 to 7 years.

**Handout:**  
*ARM vs. 30 Year Loan*

## 5. Step Loans

Combines the stability of a fixed-rate loan with the lower rates of an ARM.

There are two options: 5/25 and 7/23: Interest rate is fixed for the first five or seven years, then the loan adjusts once into a 1-year ARM or a fixed-rate loan.

- ◆ Lower interest than the prevailing rate for 30-year fixed-rate mortgages
- ◆ Amortized over 30 years

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## 6. Balloon Loans

Interest paid during the term of the loan does not fully pay off the mortgage. At the end of the loan term, must pay off the remaining principal in one lump sum.

- ◆ Terms are short in length, usually 5 to 7 years, but amortized over 30 years.
- ◆ Usually lower interest rates than fixed-rate loans.
- ◆ Most useful to homebuyers who stay in home no more than the term of the loan.

## 7. FHA Loans

Government-backed Federal Housing Administration loans designed for first-time or lower-income homebuyers.

- ◆ Interest rate usually less than conventional loans.
- ◆ Available in both fixed-rate or adjustable-rate mortgages.
- ◆ Down payment of 3% to 4% of loan amount.
- ◆ Maximum loan amount - \$133,000

## 8. VA Loans

Loans available to veterans of the United States armed forces backed by the Department of Veterans Affairs. Have your lender check the VA funding fee.

- ◆ Zero down payment
- ◆ Interest rate usually less than conventional loans.
- ◆ Points must be paid by the seller. If seller is reluctant to pay points, buyer can increase offering price to include the cost of points.
- ◆ Available only in fixed-rate mortgages.
- ◆ Maximum loan amount - \$203,000.

You may want to explore other mortgage loan options rather than use your VA. If you have to sell and a buyer comes along who wants to assume your mortgage, then your VA will be unavailable to you until that mortgage is cleared by a home sale with a substitution of a completely new mortgage. That may take years.

## 9. Seller Financing

The seller takes on the role of lender and gives the buyer a loan to purchase his/her property. Generally, the seller owns the property outright and can finance the entire purchase or has significant equity and can “carry back” a second mortgage which then can be used to finance the buyer’s down payment.

- ◆ Best bets for seller financing - elderly homeowners who do not need the cash from the sale of their home to finance their next home.
- ◆ Advantages for buyers – get the prevailing or better interest rate without paying points or other junk fees.



## Student Handout 4

### Extracted Material from DOD Financial Management Regulation on Split Disbursement Payment

**This Student Handout Contains**

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This student handout contains one page of extracted material from the DOD Financial Management Regulation on Split Disbursement Payment.

Item/Title	Pages
Split Disbursement Payment	1

**Disclaimer:** The training developer extracted the material from the DOD Financial Management Regulation. The text may contain passive voice, misspellings, grammatical errors, etc. and may not be in compliance with the Army Writing Style Program.

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## **Split-Disbursement Payment Option Available for DoD Travelers**

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The Department of Defense has introduced a new payment option for its travel cardholders through the deployment of upgraded software. Known as "split-disbursement," this option allows DOD travelers to elect a split-disbursement when submitting their travel settlement. Using the upgraded Integrated Automated Travel System (IATS 5.X), part of the payment is sent via electronic funds transfer to the travel card contractor, and the rest, forwarded directly to the travelers' designated account.

Used correctly, the split-disbursement option eliminates the cardholders' burden and cost of writing and mailing personal checks for travel payments. In addition, the use of direct deposit speeds the reimbursement process and reduces both administrative costs and account delinquencies. While this payment option will benefit all DOD travelers, it will be of particular value for those on long-term temporary duty submitting interim travel settlements, as it allows the travel card contractor to be paid directly.

Split Disbursement is not uncommon in the private sector. Several Fortune 500 companies have used similar practices for decades. Recognizing the private-sector successes and as part of the ongoing reform of its travel and transportation payment practices, DOD and the travel card contractor worked to make the split-disbursement option available to all DOD travelers paid through IATS 5.X and SRD-1.

Travelers wishing to elect the split-disbursement option simply need to determine the amount charged to their travel card during the billing period and specify that amount on the travel voucher (DD Form 1351-2) in block 3c. For example, if \$300 is charged to the DOD travel card for official business expenses and the split-disbursement option is used, the traveler designates this in block 3c as "SPLIT \$300." In the event that less money is designated than needed to cover charges to the card, the traveler is responsible for paying the difference. Likewise, if more money than necessary is designated, the travelers' card account will be credited to cover future travel expenses. The traveler also has the option to request payment of the credit by contacting the travel card contractor using the customer service number (1-800- 492-4922).

IATS 5.X software will be released for deployment to the field offices currently using a previously issued version of IATS by the end of September.

## Student Handout 5

### Extracted Material from DOD Financial Management Regulation, Vol 9, Chap 3

**This Student Handout Contains**

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This student handout contains 15 pages of extracted materials from the DOD Financial Management Regulation on Department of Defense Government Travel Card.

Item/Title	Pages
Department of Defense Government Travel Card	SH-5-2 thru SH-5-16

**Disclaimer:** The training developer extracted the material from the DOD Financial Management Regulation. The text may contain passive voice, misspellings, grammatical errors, etc. and may not be in compliance with the Army Writing Style Program.

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**CHAPTER 3**

**DEPARTMENT OF DEFENSE GOVERNMENT TRAVEL CHARGE CARD**

**POLICY AND PURPOSE**

General. “The Travel and Transportation Reform Act of 1998” (TTRA) (Public Law 105-264) stipulates that the government-sponsored, contractor-issued travel card (hereafter referred to as the “travel card”) shall be used by all U.S. Government personnel (civilian and military) to pay for costs incident to official business travel. Provisions governing this mandatory use requirement within the Department are set forth in section 0303 of this chapter.

Purpose. Within the Department, the travel card program is intended to facilitate and standardize the use by DoD travelers of a safe, effective, convenient, commercially available method to pay for expenses incident to official travel, including local travel. The travel card is used to improve DoD cash management, reduce DoD and traveler administrative workloads, and facilitate better service to DoD travelers. In addition, because of the refund feature of the travel card program, the program results in cost savings for the Department. In addition to individual travel cards, there are travel card variations that include restricted cards, unit cards, and centrally billed accounts (CBA). These variations are used to meet specific needs of the DoD Components. This chapter sets forth the policy and procedures with respect to mandatory use of the travel card under the TTRA. It also establishes procedures for travel card issuance and use.

Applicability And Scope. These policies are applicable to the Office of the Secretary of Defense, the Military Departments, the Chairman of the Joint Chiefs of Staff and the Joint Staff, the Combatant Commands, the Inspector General of the DoD, the Defense Agencies, the DoD Field Activities, the Uniformed Services University of the Health Sciences and all DoD nonappropriated fund instrumentalities (hereafter referred to collectively as the “DoD Components.”)

**RESPONSIBILITIES**

General Services Administration. The General Services Administration (GSA) awards and administers a master contract for the government travel card program, which is part of the “GSA Smart Pay Program.” The GSA is also responsible for issuing government wide policies and procedures for implementation of the TTRA.

Under Secretary of Defense (Comptroller) (USD(C)). The USD(C) is responsible for establishing DoD-wide policies for the DoD Travel Card Program. Included

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within this responsibility is the requirement to develop DoD -wide policy for the implementation of the requirements of the TTRA and monitoring implementation of the TTRA by the DoD Components. DoD Component Heads. The Head of each DoD Component is responsible for developing TTRA implementation strategy for use in that Component. The Component Head, along with the Project Manager-Defense Travel System, shall ensure that the appropriate systems modules are developed that enable DoD travel systems to operate consistent with the requirements of the TTRA and this chapter. Component Head responsibilities include, but are not limited to, submitting regulations developed to implement the TTRA for USD(C) approval; granting exemptions as indicated in, and in accordance with, subparagraphs and of this chapter and notifying the Administrator of the General Services Administration regarding exemptions granted as indicated in subparagraph 030303.C of this chapter.030204. Director, Defense Finance and Accounting Service (DFAS). The Director, DFAS has been designated by the USD(C) as the program manager for the travel card. The DFAS also shall facilitate traveler determination of any late payment fees or charges that may be payable to a traveler under the TTRA as indicated in subparagraph 030701.C of this chapter. Travel Card Program Management Office (TCPMO). The Travel Card Program Management Office (TCPMO), within the DFAS Headquarters' Directorate for Finance (DFAS -HQ/FMT), manages the Department's Travel Card Program. A "DoD Tailored Task Order for the Travel Card Program" was issued to the card contractor and is managed and administered on behalf of the Department by the Acquisition Support Organization, DFAS Headquarters (DFAS -HQ/ASO). The TCPMO works closely with the GSA, the DFAS HQ/ASO, DoD Components, and the card contractor to manage the day-to-day operations of the DoD Travel Card Program.

. Assistant Secretaries of the Military Departments (Financial Management and Comptroller) and Defense Agency Comptrollers. The Military Department Assistant Secretaries (Financial Management and Comptroller) and Defense Agency Comptrollers, or equivalents, shall ensure program management responsibilities are accomplished within their respective Component, and shall designate a Program Manager for their DoD Component. The Component Program Manager (CPM) shall be designated in writing and identified both to DFAS-HQ/FMT and the travel card contractor. DoD Component Program Managers (CPMs). The CPMs are responsible for establishing and managing the DoD Travel Card Program in compliance with this volume. Each CPM also is responsible for establishing and maintaining the Component's organization structure ("hierarchy") and notifying DFAS -HQ/FMT and the card contractor of any changes in organization structure that affect the travel card program. . Agency Program Coordinators (APC). The APCs are responsible to their respective DoD Component CPM for program execution and management. APCs are responsible for the day -to-day operations of the DoD Travel Card Program. Each APC, in conjunction with the card contractor, shall maintain an up -to-date list of all current cardholders and accounts to include information such as account names, account numbers, addresses, and telephone numbers. Centrally Billed Account (CBA) APCs. The CBA APCs are those personnel designated by their activity commander or director as responsible for the management of CBAs used for the purchase of transportation services.

Unit Travel Cardholders. Holders of unit travel cards are designated by the activity commander or director as responsible for management of the CBA unit card. Travel Cardholders. Cardholders for individually billed accounts (IBA) are personnel to whom travel cards have been

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issued for use while performing official government travel. These personnel shall adhere to the procedures set forth in this Regulation and applicable DoD Component guidance. Individual cardholders are responsible for payment in full of the undisputed amounts due in the monthly billing statement from the card contractor.

#### **MANDATORY USE OF THE TRAVEL CARD**

##### **Policy**

A. Use by DoD Personnel. All DoD personnel shall be required to use the government-sponsored, contractor-issued travel charge card for all expenses arising from official government travel, unless otherwise exempted. Although a traveler may be required to use the travel card, failure to use the travel card shall not be a basis for refusing to reimburse the traveler for otherwise appropriate charges. Such failure may, however, subject the traveler to appropriate administrative or disciplinary action.

B. Travel Orders. All travel orders shall:

1. Include the following statement notifying travelers of the requirements of the TTRA. “‘The Travel and Transportation Reform Act of 1998’ stipulates that the government-sponsored, contractor-issued travel card shall be used by all U.S. Government personnel (civilian and military) to pay for costs incident to official business travel unless specifically exempted by authority of the Administrator of General Services or the head of the agency.”
2. Indicate whether the traveler is (or is not) a government travel card cardholder.
3. If the traveler is a government travel card holder, indicate whether or not the traveler is exempt from the mandatory use provision of the TTRA. (This statement also authorizes alternative payment methods.)
4. Indicate that government travel cardholders shall obtain cash, as authorized, through automated teller machines (ATMs), rather than obtaining cash advances from a DoD disbursing officer.

#### **Government-Wide and DoD-Wide Exemptions**

##### **A. Classes of Personnel Exempted**

1. The GSA has exempted the following classes of personnel from mandatory use of the travel charge card:
  - a. Employees who have an application pending for the travel charge card
  - b. Individuals traveling on invitational travel orders
  - c. New appointees.
2. In addition to the government-wide GSA exemptions, the following classes of personnel are exempt from mandatory use of the card throughout the Department:
  - a. Members of the Reserve Officer Training Corps and military personnel undergoing initial entry or initial skill training prior to reporting to their first permanent duty station

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- b. Military and DoD civilian personnel who are denied travel charge cards or whose travel charge cards have been canceled or suspended for financial irresponsibility or for other specific reasons
- c. Hospital patients
- d. Prisoners
- e. Such military or DoD civilian personnel as approved by the Head of a DoD Component during (1) a period of war, (2) a national emergency declared by the President or the Congress, or (3) mobilization, deployment, or contingency operations
- f. Such military or DoD civilian personnel traveling to or in a foreign country where the political, financial, or communications infrastructure does not support the use of a travel charge card
- g. Such military or DoD civilian personnel whose use of the travel charge card, due to operational, security, or other requirements of a mission, would pose a threat to national security, endanger the life or physical safety of themselves or others, or would compromise a law enforcement activity
- h. Direct and indirect hire foreign nationals
- i. Individuals employed or appointed on a temporary or intermittent basis upon a determination by the individual's supervisor or other appropriate official that the duration of the employment or appointment or other circumstances pertaining to such employment or appointment does not justify issuance of a travel charge card to such individual
- j. Such military or DoD civilian personnel as are determined to be infrequent travelers. An infrequent traveler is one who travels two or less times per year.

**B. Classes of Expenses Exempted**

1. The GSA has exempted the following classes of expenses from the mandatory use of the travel charge card:
  - a. Those incurred at a vendor that does not accept the government-sponsored, contractor-issued travel charge card
  - b. Laundry/dry cleaning
  - c. Parking
  - d. Local transportation system fares
  - e. Taxi fares
  - f. Tips
  - g. Meal charges when the use of the card is impractical (e.g., group meals or when the card is not accepted at a dining establishment)
  - h. Telephone calls (when a government calling card is available for use in accordance with agency policy)
  - i. Relocation allowances prescribed in chapter 302 of the Federal Travel Regulation, except en route travel and house hunting trip expenses.
2. In addition to the GSA government-wide exemptions, the following classes of expenses are exempt from the mandatory use of the travel charge card throughout the Department of Defense:
  - a. All expenses covered by the "meals and incidentals" portion of the per diem allowance

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- b. All local and long distance telephone calls
- c. All expenses incurred during a permanent change of station move and all expenses while on a .

#### **Exemptions Made by the Heads of DoD Components**

A. Class Exemptions. The Heads of DoD Components may exempt additional types or classes of expenses or types or classes of personnel from the mandatory use requirements of the TTRA. An exemption covering a type or class of expenses or type or class of personnel shall be approved by the USD(C) prior to implementation.

B. Individual and Specific Expense Exemptions. The Heads of DoD Components may exempt any individual person or specific expense (i.e., a specific occurrence of an expense relating to a particular traveler or a single episode of travel) from the mandatory use requirements of the TTRA. These exemptions do not require approval by the USD(C).

C. Notifications of Exemptions. The Head of a DoD Component (or designee) who grants an exemption from the requirements of the TTRA shall, in accordance with statutory requirements and regulations promulgated by the Administrator for General Services, prepare and submit the following notifications:

1. Not later than 30 days after granting an exemption for a type or class of individual or a type or class of expense covered by subparagraph 030303.A, above, notify the Administrator of General Services in writing of the granting of such exemption.
2. Not later than 30 days after granting an exemption to any individual person or specific expense covered by subparagraph 030303.B, above, notify the Administrator of General Services in writing of the granting of such an exemption. Notifications under subparagraphs 30303.C.1 and 30303.C.2, above, shall state the reason for the exemption and be submitted directly to the Administrator of General Services, Attention: MTT, 1800 F Street, NW, Washington, D.C. 20405. A copy of each notification shall be provided to the DFAS, Attention: DFAS -HQ/FMT, 1931 Jefferson Davis Highway, Arlington, Virginia, 22240 -5291.

#### **Payment Methods Authorized When Exempted.**

When an exemption is granted from the mandatory use of the travel charge card, one or a combination of the following may be authorized for payment of travel expenses. City pair contractors, however, are not required to accept payments under subparagraphs 030304.A or B below:

- A. Personal funds, including cash or a personal charge card
- B. Travel advances, or
- C. Government Travel Requests.

#### **NON-MANDATORY USE OF THE TRAVEL CARD**

##### **Voluntary Card Use.**

An individual granted an exemption from mandatory use of the travel card may continue to use the travel card on a voluntary basis.



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#### **Local Travel**

The travel card can be used for local travel expenses (i.e., parking and tolls), but such use is not required under the TTRA.

#### **0305 PROGRAM STRUCTURE AND GENERAL TRAVEL CARD INFORMATION**

##### **General Information**

A. Card Design. In accordance with the GSA master contract, government travel cards may be issued in either the regular card design (i.e., the U.S. Capitol dome with an airplane and the words: "For Official Government Travel Only"), the quasi-generic card, or generic card. The quasi-generic and generic cards do not have the special artwork or statement identifying it as a "government" card. When security is an issue, a generic or quasi-generic travel card may be issued upon written request from the APC through the CPM to the card contractor.

B. The Program. The DoD Travel Card Program consists of three products: individually billed accounts (IBA); centrally billed accounts (CBA); and travelers checks.

C. Internet Based Electronic Travel Card Management System. The GSA master contract stipulates that the card contractors will offer an Internet based electronic travel card management system. These systems allow access via personal computers (PCs) in order to process and maintain DoD travel card accounts, display transaction and account data, and provide designated reporting information. The DoD Components shall determine whether individual cardholders will have system access for their accounts and will notify the TCPMO and contractor of that decision. DoD Component activities shall use the contractor's Internet-based electronic travel card management system to the maximum extent possible. CPMs shall inform the card contractor of any organizations (e.g., major commands, major subordinate commands, bases or installations) that lack connectivity to on-line services. The card contractor shall issue electronic program management reports as required. Paper reports are rendered on an exception basis and require CPM/TCPMO approval.

D. Automated Teller Machine (ATM) Access. Travelers may use the travel card at a specified network of ATMs to obtain cash needed to pay for "out-of-pocket" travel-related expenses. The card contractor will assign a personal identification number (PIN) to each cardholder, together with card issuance to permit ATM access. ATM advances shall not be obtained earlier than 3 working days before scheduled travel. The card contractor will charge the cardholder a transaction fee for ATM use. This charge, which appears on the cardholder's billing statement, is a reimbursable expense. In addition, some banks charge a service fee for ATM access. That fee also is reimbursable. Government travel advances will not be authorized for personnel who are eligible to be issued individual travel cards.

##### **E. Travelers Checks**

1. Cardholder Placed Order Via the Internet. If otherwise permitted, travelers checks may be ordered by the cardholder in predetermined amounts via the contractor's Internet based electronic travel card management system. The contractor will charge a user fee for traveler's checks purchases and these charges will appear on the cardholder's billing statement. These fees are reimbursable expenses provided the cardholder requests reimbursement on the travel voucher. The issuance of travelers checks does not preclude the use of the ATM privilege, but does reduce the total amount available to the cardholder during that billing cycle.

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2. Use in Lieu of Cash Advance. The issuance of travelers checks by a DoD Component is optional. Where used, travelers checks issued by an agency shall be treated as a cash advance. The APC, acting as an agent for the Department, shall follow the instructions found in Volume 5, Chapter 3, of this Regulation.

F. Merchant Category Codes (MCCs). These are codes established by the card network to describe merchant type. The Department blocks some MCCs as a measure to control inappropriate card use. Issues concerning MCCs should be addressed to the TCPMO.

G. Refunds. Based on net charge volume, the GSA contract stipulates that the card contractor shall offer refunds to using government agencies. The formula used to compute these refunds varies between individual and central accounts, and includes a factor for the promptness of payments. Refunds are adjusted for amounts written off due to delinquency. The GSA deducts an industrial funding fee from the refunds, with the balance sent by the contractor via electronic funds transfer to the applicable DoD Component. The refunds are computed and distributed each quarter.

#### **Eligibility**

A. DoD Personnel. Unless otherwise exempted, all DoD personnel (military and civilian) who travel in the performance of their duties shall obtain and use the DoD travel card. DoD personnel shall be issued only one travel card. If a DoD employee also holds Reserve Component membership, the travel card will be issued through the organization of his or her civilian employment. DoD civilian employees who also are active members of a Reserve Component are required to provide their full-time federal employer a copy of their inactive duty training schedule and active duty for training or annual training military orders to support their use of the travel card for military duty.

B. Foreign Nationals. Foreign Nationals who travel on behalf of employing DoD activities are authorized to use travel cards, but may not be eligible for the city-pair contract rates.

C. Nonappropriated Fund Instrumentality (NAFI) Employees. NAFI employees of the Department are authorized to use travel cards.

D. Recruiting Personnel. Military personnel assigned to recruiting duties are authorized to use travel cards for official reimbursable expenses in their local area.

E. DoD Contractors. DoD contractors are not authorized to use government travel cards.

Individually Billed Accounts (IBA). An IBA is an account where a travel card is issued to an individual employee. The cardholder receives the billing statement directly from the contractor at the address provided on the card application. It is his or her responsibility to notify the APC and the card contractor of changes in contact information such as a new address. Cardholders are responsible for payment in full of the amount stated on the monthly billing statement. To assist the traveler in fulfilling the payment responsibility, the DoD Component shall encourage cardholders to use the "split disbursement payment process" for travel reimbursement. (See paragraph 080102 of this volume.) IBAs contain a unique numeric prefix which identifies the account as an official government travel card. This prefix identifies the account as eligible for government travel rates, including city pair rates, and tax exemption when provided by state law. IBAs are issued as specified below:

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#### **A. Standard Travel Card.**

These are issued to individuals as recommended by the card contractor, or as directed by the commander or supervisor. In no case, however, may a standard travel card be issued to an individual who refuses a credit check (see paragraph 030605, below). The standard credit limit on these cards is \$5,000 per billing cycle. The APC (or CPM or TCPMO) has the authority to increase the overall credit limit on the card beyond \$5,000 to accommodate mission requirements.

1. The ATM limit is \$500 per billing cycle. APCs may raise the ATM limit to \$4,000 per billing cycle and CPMs may raise the ATM limit to \$5,000 per billing cycle. ATM limits over \$5,000 per billing cycle require TCPMO approval. DoD Components also may implement lower ATM limits.
2. The retail limit (purchases for other than lodging, airfare, car rental and meals) is \$250 per billing cycle. APCs may raise the retail limit to \$500 per billing cycle on a case-by-case basis and CPMs may raise the retail limit to \$1,000 per billing cycle on a case-by-case basis.
3. The effect of increases to ATM and retail limits does not automatically change the total credit limit on the card.

#### **B. Restricted Travel Card.**

These cards are issued to cardholders when recommended by the card contractor (and the APC concurs), requested by the applicant, or directed by the commander or supervisor. A restricted travel card is the only individual card that is issued to individuals who refuse credit checks. (See paragraph 030605, below.) Restricted travel cards are the same in appearance as standard cards; however, they are inactive at issuance. The total credit limit on a restricted card is \$1,250 per billing cycle. This credit limit includes a \$200 ATM limit and a \$50 retail limit, with the remaining \$1,000 available to charge meals, lodging, rental cars and miscellaneous expenses. APCs are authorized to raise these limits based on travel requirements. At the request of the cardholder, the APC may activate the restricted card for a specific travel event. Centrally Billed Accounts. Cards for CBA accounts are issued to DoD activities that make travel arrangements and those activities guarantee payment. CBAs have no spending ceiling and payments are subject to the "Prompt Payment Act of 1982," as amended. Such card contains the unique prefix "4486 1600" that identifies the account as a CBA for official federal government travel. This prefix identifies the account as eligible for government travel rates, including city pair rates, and tax exemption. The APC shall forward any request to establish a CBA to the cognizant CPM. CBAs are issued for the following purposes.

#### **A. Transportation Travel Cards.**

Transportation travel cards are issued to government travel offices for use in purchasing transportation, including airline tickets, bus tickets, and rail tickets. These purchases are made through a commercial travel office (CTO). The CTO acts as an agent for the government travel office. The government travel office receives a monthly invoice from the travel card contractor. The CTO is responsible to reconcile the transportation purchases appearing on the invoice and forward the invoice to the government transportation office. The transportation office shall **DoD**

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forward certified invoices to the designated disbursing office.

#### **B. Unit Travel Cards.**

DoD Components may use unit travel cards only when it is cost effective and in the best interest of the mission. Categories of travelers whose travel may be charged to unit travel cards include, but are not limited to, new recruits and employees who do not yet have travel cards, prisoners, and DoD group travelers. Components should limit the issuance of unit travel cards wherever possible and maximize the use of individual travel cards. Written approval of the cognizant CPM is required for issuance of a unit travel card. Upon receipt of the invoice, each designated unit cardholder is responsible for reconciling the travel card charges and promptly providing a validated copy of the statement to the unit account coordinator. The unit account coordinator is responsible for reconciling the charges appearing on the summary account monthly statement which is a composite (rollup) of all charges from all cards assigned to that organization. The unit account coordinator also is responsible for filing any necessary disputes with the travel card contractor. Once the billing statement is validated, the unit account coordinator shall obtain fund certification from the cognizant resource management office before forwarding certified billing statements, with any required supporting documentation, to the designated disbursing office. Costs exceeding published travel and per diem rates shall be approved using an authorization memorandum signed by the authorizing official.

#### **MANAGEMENT CONTROLS**

Training. The TCPMO and the DoD CPMs shall ensure that travel card program training materials are distributed throughout the Department. Training materials include specific manuals, videos, and contractor products tailored for the Department. DoD Components shall advise new cardholders on proper use of the card and ensure that APCs and current travel cardholders are informed of policy and procedure changes to the travel card program. Training materials may be provided in hard copy and/or electronic media.

#### **Travel Card Applications**

Application forms are available via the card contractor's Internet based electronic travel card management system or from the APC. Applications contain the following data: applicant's name, social security number (SSN), current address, work and home phone numbers, the applicant's authorization for a contractor performed credit check, the applicant's signature and the supervisor or commander approval. When an applicant is given an application for a travel card, the APC shall give the applicant applicable program information and have the applicant sign a "DoD Statement of Understanding for Travel Cardholders." (See Appendix A.)

#### **Processing Routine Applications**

The APC shall request that the card contractor establish new individually billed accounts upon receipt of a properly completed application. The applicant, the applicant's supervisor, and the APC shall sign the application. The APC shall complete the billing hierarchy string on the application before submitting the application to the card contractor. The APC shall fax the completed application, within 3 days of APC receipt, to the card contractor.

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#### **Processing Emergency Applications**

Emergency applications are defined as applications for employees who are scheduled to travel within 5 working days. The APC may call the contractor's government card customer service unit (GCSU) to request an emergency travel card. The APC shall fax the application to the card contractor as soon as possible. The APC shall annotate prominently the application "Emergency Application" and verify with the GCSU that the application has been received. The contractor shall process and send emergency cards within 24 hours to the individual cardholder's stated address, the temporary duty location, or as directed by the APC.

#### **Credit Checks**

Credit checks shall be performed on all new card applicants. The applicant has the option to decline the conduct of a credit check. In that case, only a restricted card shall be issued. If the applicant agrees to a credit check the fact that a credit check has been performed will appear on the credit bureau's record for the applicant and will be evident to subsequent credit grantors who request a credit check. This process is similar to instances when the applicant personally applies for credit. From the information obtained as a result of the credit check, the card contractor either shall issue a standard travel card, or shall recommend to the APC the issuance of a restricted card. In no case shall the card contractor provide credit history results to the APC.

Recommendations from the card contractor are intended to assist the commander or supervisor in determining whether a standard or restricted travel card is the best option for the traveler. The commander or supervisor may override the contractor's suggestion to issue a restricted travel card and authorize the APC to approve a standard travel card at any time except where an applicant declines a credit check.

#### **Issuance of Cards by Contractor**

Upon receipt of a properly completed application, the card contractor shall send the travel card and cardholder agreement within 3 business days. The contractor shall mail the card to the individual cardholder's stated address, temporary duty location, or as directed by the APC. The card contractor shall send PIN numbers associated with the ATM option separately from the card within 3 business days after receipt of the completed application. The card contractor shall allow the cardholder the later option to personalize his or her PIN.

#### **Misuse**

Commanders or supervisors shall not tolerate misuse of the DoD travel card and cardholders who do misuse their DoD travel cards shall be subject to appropriate administrative or disciplinary action. These cards shall be used only for reimbursable expenses associated with official travel. The following, while not reimbursable, are considered to be related to official travel. Therefore, the travel card can be used for the following purposes.

- A. Incidental Expenses. The cardholder, while in a travel status, may use the card for non-reimbursable incidental travel expenses such as rental movies, personal telephone calls, exercise fees, and beverages, when these charges are part of a room billing or meal and are reasonable.
- B. Expenses Incurred During Leave in Conjunction with TDY. The travel card also may be used for personal lodging or car rental charges, incurred in conjunction with otherwise authorized official travel expenses, when such charges are an integral part of the billing for the period spent

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at the temporary duty location while on official travel (i.e., when a traveler spends a weekend or is authorized leave at a temporary duty location before or after TDY, and a room or car rental is continued into TDY, a weekend, or a period of authorized leave).

C. Payments. The traveler shall pay for incidental nonreimbursable personal expenses covered by subparagraphs 030607.A and B, above, as part of the normal billing process.

## **APC RESPONSIBILITIES**

### **Program Management Information**

A. General. As the day-to-day manager of the travel card program, the APC shall maintain all pertinent records for cardholders while they are in the APC's hierarchy. When the cardholder transfers, the gaining APC shall establish needed records. For individual applicants, these records shall include: a copy of the application; a copy of the signed DoD Statement of Understanding (see Appendix A); and all other relevant correspondence pertaining to the cardholder (e.g., delinquency notification and requests for changes in spending limits). Due to the sensitivity of the data contained in these files, such data shall be maintained in a secure container or area that assures limited access.

B. Organization Hierarchy Structure. APCs at all levels are responsible for maintaining their organizational hierarchy structure. This hierarchy is the link that identifies cardholder accounts to correct organizations within a parent Component. The APC is responsible for tracking arriving and departing cardholders to ensure validity of the organization hierarchy and the contractor reporting information.

### **Account Transfers.**

APCs are directed to follow the procedures published in the contractor's training guides for using the electronic system to transfer cardholders.

### **Termination**

The APC shall terminate a travel card upon a cardholder's dismissal, retirement, or separation from the Department. Also, if applicable, the APC shall terminate the cardholder's use of the card contractor's Internet-based electronic travel card management system.

### **Delinquencies.**

As the day-to-day manager of the travel card program, the APC shall monitor delinquencies and take appropriate actions as defined in section 0308, below.

## **TRAVELER REIMBURSEMENT AND PAYMENT RESPONSIBILITIES**

### **Timely Reimbursement of Travel Expenses**

A. Reimbursement Within 30 Days. DoD personnel shall be reimbursed for authorized travel expenses no later than 30 days after submission of a proper travel claim to the office where the claim is to be approved. Therefore, a satisfactory recordkeeping system shall be maintained by the approving official to track submission and receipt of travel claims. For example, travel claims submitted by mail could be annotated with the date of receipt in the office where the claim is to

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be approved. Travel claims submitted electronically to the approving official could be considered to have been received on the submission date indicated on the e-mail, or on the next business day if submitted after normal working hours. For fully automated travel applications, such as the Defense Travel System, the travel claim shall be considered to be received when the traveler releases the claim to the travel system.

#### **B. Travel Claim Errors**

1. If a travel claim contains an omission or an error, the claimant shall be notified about the error by the responsible official. The notification shall include the reason(s) why the travel claim is not proper. The 30-day period for the government to make payment before application of a late payment fee will not commence until a correct travel claim is received. This procedure will be applicable to all travel claims submitted prior to May 1, 2002 .

2. Beginning with travel claims submitted on or after May 1, 2002, if a travel claim contains an omission or an error, it should be returned to the traveler within a 7 -day period. The notification shall include the reason(s) why the travel claim is not proper. Once a corrected travel claim is received, the 30-day period for the government to make payment before application of a late payment fee will commence. . Late Payment Fees and Charges. Where payment of the travel settlement takes longer than 30 days following receipt by the office where the claim is to be approved, a late payment fee may be required. This fee is payable, using the “Prompt Payment Act” interest rate, beginning on the 31 day after the submission of a proper travel claim and ending on the date that the payment is disbursed by the government. The only exception to the requirement for this payment is that no payments are required for amounts less than \$1.00. In addition, the traveler shall be paid an amount equal to any late payment charge that the card contractor would have been able to charge had the traveler not paid the bill. The Internal Revenue Service has determined that the late payment fee is reportable as interest and that the payment equal to the late payment charge is to be reported as additional wages.

D. Systems Modifications. DoD Component travel systems shall be modified as necessary to capture the date of submission of a proper travel claim and compute entitlement for late payment fees due as a result of untimely settlement .

E. Claims for Late Payment Fees. Pending implementation of system changes that will track late payments and automatically create and compute the entitlement resulting from such late payment, if a traveler believes that late payment fees are due, he or she shall submit a supplemental travel claim for late payment fees. Each such supplemental travel claim shall be submitted through the office where the claim is to be approved, where it will be annotated with the date that the original travel claim was received. As DoD travel systems are modified to implement the automated late payment fee computation and entitlement requirement, there no longer will be a need for separate action by the traveler to file a supplemental travel claim for late payment fees.

#### **Responsibilities of Travelers for Payments**

A. Monthly Statements. Cardholders are responsible for payment in full of the amount stated on the monthly billing statement. To assist the traveler in fulfilling the payment responsibility, cardholders are encouraged to use the “split disbursement payment process” for travel reimbursement. (See paragraph 080102 of this volume.)

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B. Disputed Charges. In the event that the billed amount contains charges that are disputed by the traveler, the traveler must obtain a dispute form from his or her APC and send that completed form to the travel card contractor. Detailed instructions will be provided by the APC.

#### **Fees Chargeable by the Contractor.**

The card contractor may charge a fee when a check submitted in payment of a bill is dishonored. In addition, a late fee per billing cycle may be assessed for individually billed accounts that are 120 days past due. If an account is referred for collection, the card contractor may charge the cardholder up to 25 percent of the account balance plus all costs of collection. The card contractor also may initiate garnishment proceedings through the judicial system against travel cardholders for accounts over 120 days delinquent and also may notify credit bureaus of these delinquencies.

#### **DELINQUENCY MANAGEMENT**

The GSA master contract specifies time frames when the contractor must notify the APC of impending suspension or cancellation of delinquent cardholder accounts.

A. Mission-critical Travel. When mission related circumstances preclude the filing of interim vouchers, the APC is authorized to notify the card contractor to so advise and ensure that cardholders will not be identified as delinquent. Mission -critical travel is defined as travel performed by DoD personnel under competent orders and performing duties that, through no fault of their own, may prohibit the prompt payment of their outstanding travel charge card bills. This category is determined by the organizational APC or CPM. While in this category, individual travel charge cards shall not be suspended or cancelled. Should there be outstanding bills, they shall be settled within 45 days of removal from this status.

B. Long-term Travel. While in a long -term travel status, the standard is that the traveler shall file interim vouchers every 30 days, with split disbursement as the preferred means of settlement. Organizations should assist travelers by providing blank vouchers prior to departure and upon arrival at the temporary duty location.

C. Pre-suspension Notification for Accounts 55 Days Past Due. At 55 days past due, the contractor shall issue a pre-suspension notification to the APC. The APC shall notify the cardholder and the cardholder's supervisor, by e-mail where possible, that the account will be suspended in 5 days if the contractor does not receive full payment of all undisputed amounts. The APC shall request that the supervisor notify the APC, within 5 days, of any reason that the account should not be suspended (e.g., mission-critical travel or long -term temporary duty). If the APC is given sufficient information by the cardholder's supervisor to justify keeping the account active, the APC immediately shall advise the GCSU that the account should remain active. The APC should keep a record of the supervisor's notification and related correspondence. (Sample notification letters are at Appendix A.)

D. Suspension of Accounts 90 Days Past Due. At 90 days past due, the APC shall notify the cardholder's supervisor and the next command level, via e-mail when possible, that the cardholder's account has been suspended for nonpayment. Charge card privileges, which include ATM access and all charge capability, shall be blocked for this cardholder until payment



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in full has been received by the contractor. If no action is taken toward this debt, the account shall be cancelled. The APC should keep a record of each notification. (Sample notification letters are at Appendix A.)

E. Cancellation of Accounts 120 Days Past Due. At 120 days past due, the card contractor shall issue a cancellation notice to the APC. The APC shall notify the cardholder, and the cardholder's chain of command, by e-mail if possible, that the cardholder's account shall be cancelled at 126 days past due if the contractor does not receive full payment of the undisputed amounts. The APC shall keep a record of each notification. If no action is taken toward this debt, collection action shall be taken by the travel card contractor beginning on the 126<sup>th</sup> day past due. Once an account is cancelled, reinstatement may be made only when: (1) the account is paid in full and (2) the commander or director sends written correspondence to the card contractor requesting reinstatement. The contractor reserves the right to deny the reinstatement request. (Sample notification letters at Appendix A.)

F. Cancellation of Accounts Suspended Two Times. Cancellation of an account also shall occur if the account has been suspended 2 times during a 12-month period for nonpayment of undisputed principal amounts and again becomes past due. Accounts that have been suspended twice during a 12-month period shall be considered, for cancellation purposes, past due for the third time at 45 days from the closing date on the statement of account in which the charge appeared.

## **REPORTS PROVIDED BY CARD CONTRACTOR**

### **General.**

Reports are considered the primary program tools and shall be available via the contractor's Internet-based electronic travel card management system. Due to the sensitive nature of all travel card reports, information contained therein shall be safeguarded. Mandatory reports are outlined in paragraphs 030902 and 030903, below.

### **Reports Provided by Card Contractor for Each CPM**

A. Agency Summary Report. This report is a summary report, by Component, for all travel-related expenses, transportation charges, ATM usage, and travelers checks transactions. This report segregates all charges and credits for each individually or centrally billed accounts.

B. Statistical Summary Report. This report lists, by Component, on a current and fiscal year basis, the dollar volume, ATM volume, travelers check volume, number of transactions, active cardholders, total accounts, new accounts, miscellaneous fees and identification of fees.

C. Aging Analysis. This report identifies summary-level delinquency information by Component hierarchy.

### **Reports Provided by Card Contractor for Each APC**

A. Cardholder Account Listing. This report identifies cardholder names, addresses, telephone numbers, SSNs, and account numbers assigned under the APC organization.

B. Account Activity Report. This report identifies travel cardholder activity and ATM usage during the recent billing cycle.

C. Delinquency Report. This report identifies delinquent cardholders and ages delinquencies by time frame (i.e., 30, 60, 90, 120, or more days).

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D. Presuspension/Precancellation Report. This report lists accounts eligible for suspension or cancellation and identifies account names, account numbers, status, balances past due, and the number of days that each account is past due.

E. Suspension/Cancellation Report. This report lists accounts that have been suspended or canceled and identifies account names, account numbers, status (suspended or canceled), date of status, balances past due, and the number of days that each account is past due.

F. Renewal Report. This report identifies those cardholders whose cards are coming due for renewal. APCs shall review the information on this report monthly and take appropriate action.

**EFFECTIVE DATE AND IMPLEMENTATION**

The policies addressed in this chapter are effective immediately. Policies addressed in section 0303, however, will apply only to travel beginning after April 30, 2000, and any labor relations obligation under Title 5, United States Code, chapter 71 shall be fulfilled prior to implementation of the policy with respect to employees represented by unions.